

*In the opinion of Hawkins Delafield & Wood LLP (“Bond Counsel”), (1) under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013TE Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2013TE Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (2) interest on the Series 2013T Bonds is included in gross income for federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2013TE Bonds and the Series 2013T Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2013TE Bonds and the Series 2013T Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers. See “TAX MATTERS” herein.*

**\$2,022,324,000**

**UTILITY DEBT SECURITIZATION AUTHORITY  
RESTRUCTURING BONDS SERIES 2013T AND SERIES 2013TE**

**Consisting of:**

**\$482,934,000**

**Restructuring Bonds Series 2013T  
(Federally Taxable)**

**\$1,539,390,000**

**Restructuring Bonds Series 2013TE  
(Federally Tax-Exempt)**

Utility Debt Securitization Authority (the “Issuer”), a special purpose corporate municipal instrumentality of the State of New York (the “State”), is issuing the above-captioned Bonds (the “Bonds” or “Restructuring Bonds”), for the purpose of allowing the Long Island Power Authority (the “Authority”) to retire certain of its outstanding indebtedness. The Bonds will have such scheduled and final maturities, bear interest at such rates, be payable on such dates, and be issued in such denominations as shown on the inside cover of this Official Statement.

The Bonds are limited obligations of the Issuer secured by the Collateral (as defined herein), created pursuant to the Securitization Law (as defined herein) and an irrevocable financing order adopted by the Authority’s Board of Trustees on October 3, 2013 (the “Financing Order”). The Collateral includes, among other things, the pledge to the Trustee (as defined herein) under the Indenture (as defined herein) of the Issuer’s right, title and interest in and to the Restructuring Property (as defined herein) created pursuant to the Financing Order, including the irrevocable right to impose, bill and collect a nonbypassable charge, known as a “Restructuring Charge,” required to be paid by retail electric delivery service customers of Long Island Lighting Company (d/b/a and referred to as “LIPA”), a wholly-owned subsidiary of the Authority, based on the customers’ consumption of electricity. The Restructuring Charges are required to be collected by LIPA, as initial servicer for the Issuer. Pursuant to the Securitization Law and the Financing Order, the Restructuring Property will be purchased by the Issuer from the Authority with the net proceeds of the sale of the Bonds.

The Securitization Law, together with the Financing Order, require that the Restructuring Charges are subject to an adjustment, or “true-up,” at least annually, and more frequently, if necessary, to ensure the expected collection of amounts required to timely provide all scheduled payments of principal of and interest on the Bonds and related financing costs of the Issuer, as described herein.

**Investing in the Bonds involves risks. See “RISK FACTORS” herein.**

The Bank of New York Mellon (the “Trustee”) is Trustee under the Indenture and Paying Agent for the Bonds. Public Financial Management, Inc. has acted as independent financial advisor to the Authority and the Issuer in connection with the structuring and pricing of the Bonds.

**MATURITY SCHEDULE – See Inside Cover Page**

The Bonds are not an obligation of the Authority or LIPA. The Bonds are not a debt, general obligation or pledge of the faith and credit or taxing power of the State of New York or of any county, municipality or any other political subdivision, agency or instrumentality of the State of New York other than the Issuer as described herein. The Bonds are limited obligations of the Issuer payable solely from the Collateral (as described herein) including the

Restructuring Charges. The issuance of the Bonds does not obligate the State of New York or any county, municipality or other political subdivision, agency or instrumentality of the State of New York to levy any tax or make any appropriation for the payment of the Bonds. The Issuer has no taxing power.

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The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, as Bond Counsel to the Issuer. Certain legal matters with respect to the Issuer and the Authority will be passed upon by Hawkins Delafield & Wood LLP, as Bond Counsel to the Authority and the Issuer, respectively. Certain legal matters with respect to the Issuer, the Authority and LIPA will be passed upon by Morgan, Lewis & Bockius LLP, Transaction Counsel to the Authority and the Issuer, respectively, and by Squire Sanders (US) LLP, Disclosure Counsel to the Authority and the Issuer, respectively. Certain legal matters will be passed upon for the Underwriters by Sidley Austin LLP. It is expected that the Bonds will be available for delivery in book-entry-only form through the facilities of The Depository Trust Company (“DTC”) against payment in New York, New York, on or about December 18, 2013.

## Goldman, Sachs & Co.

(Joint Senior Manager – Bookrunner for Series 2013TE Bonds)

BofA Merrill Lynch

BMO Capital Markets

Ramirez & Co., Inc.

Citigroup

RBC Capital Markets

Barclays

(Joint Senior Manager – Bookrunner for Series 2013T Bonds)

## Morgan Stanley

Wells Fargo Securities

Jefferies

Siebert Brandford Shank & Co.,

L.L.C.

M.R. Beal & Company

TD Securities

December 12, 2013

**Maturity Schedule**  
**\$2,022,324,000**  
**UTILITY DEBT SECURITIZATION AUTHORITY**  
**RESTRUCTURING BONDS SERIES 2013T AND SERIES 2013TE**

Consisting of:  
**\$482,934,000**  
**Series 2013T**  
**(Federally Taxable)**

Tranche	Principal Amount Offered	Expected Weighted Average Life (years)	Scheduled Maturity Date <sup>†</sup>	Final Maturity Date <sup>†</sup>	No. of Scheduled Semi-Annual Principal Payments	Interest Rate	Public Offering Price <sup>††</sup>	CUSIP*
2013T								
Series T-1**	\$100,000,000	4.91	June 15, 2019	June 15, 2021	5	2.042%	99.999%	91802RAT6
Series T-2**	\$100,000,000	5.92	June 15, 2020	June 15, 2022	3	2.554%	99.995%	91802RAU3
Series T-3**	\$100,000,000	6.79	June 15, 2021	June 15, 2023	3	2.937%	99.997%	91802RAV1
Series T-4**	\$182,934,000	8.77	December 15, 2023	December 15, 2025	6	3.435%	99.994%	91802RAW9

<sup>†</sup>If such date is not a Business Day, the next Business Day without additional interest.

<sup>††</sup>Pricing based on the discounting of all scheduled principal and interest payments including the first due on December 15, 2014.

\*\*Subject to Sinking Fund Payments. See "THE BONDS—Redemption-Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules" in this Official Statement.

**\$1,539,390,000**  
**Series 2013TE**  
**(Federally Tax-Exempt)**

Tranche	Principal Amount Offered	Scheduled Maturity Date <sup>†</sup>	Final Maturity Date <sup>†</sup>	Interest Rate	Yield	Public Offering Price	CUSIP*
2013TE							
Series TE-1	\$90,000,000	December 15, 2014	December 15, 2016	5.000%	0.260%	104.691%	91802RAA7
Series TE-2	\$15,000,000	December 15, 2015	December 15, 2017	5.000%	0.530%	108.844%	91802RAR0
Series TE-3	\$30,000,000	June 15, 2016	June 15, 2018	5.000%	0.730%	110.524%	91802RAB5
Series TE-4	\$30,000,000	December 15, 2016	December 15, 2018	5.000%	0.840%	112.264%	91802RAC3
Series TE-5	\$680,000	December 15, 2023	December 15, 2025	5.000%	3.240%	114.920% <sup>††</sup>	91802RAS8
Series TE-6	\$14,595,000	June 15, 2024	June 15, 2026	5.000%	3.350%	113.912% <sup>††</sup>	91802RAD1
Series TE-7	\$14,960,000	December 15, 2024	December 15, 2026	5.000%	3.380%	113.639% <sup>††</sup>	91802RAE9
Series TE-8**	\$25,130,000	December 15, 2025	December 15, 2027	5.000%	3.500%	112.555% <sup>††</sup>	91802RAF6
Series TE-9**	\$77,740,000	December 15, 2026	December 15, 2028	5.000%	3.630%	111.395% <sup>††</sup>	91802RAG4
Series TE-10**	\$190,640,000	December 15, 2027	December 15, 2029	5.000%	3.790%	109.986% <sup>††</sup>	91802RAH2
Series TE-11**	\$178,425,000	December 15, 2028	December 15, 2030	5.000%	3.900%	109.030% <sup>††</sup>	91802RAJ8
Series TE-12**	\$186,045,000	December 15, 2029	December 15, 2031	5.000%	3.990%	108.255% <sup>††</sup>	91802RAK5
Series TE-13**	\$73,015,000	December 15, 2030	December 15, 2032	5.000%	4.050%	107.742% <sup>††</sup>	91802RAL3
Series TE-14**	\$55,130,000	December 15, 2031	December 15, 2033	5.000%	4.110%	107.232% <sup>††</sup>	91802RAM1
Series TE-15**	\$45,130,000	December 15, 2032	December 15, 2034	5.000%	4.160%	106.809% <sup>††</sup>	91802RAN9
Series TE-16**	\$44,370,000	December 15, 2033	December 15, 2035	5.000%	4.210%	106.389% <sup>††</sup>	91802RAP4
Series TE-17**	\$468,530,000	December 15, 2039	December 15, 2041	5.000%	4.420%	104.643% <sup>††</sup>	91802RAQ2

<sup>†</sup>If such date is not a Business Day, the next Business Day without additional interest.

\*\*Subject to Sinking Fund Payments. See "THE BONDS—Redemption-Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules" in this Official Statement.

<sup>††</sup> Priced to the December 15, 2023 optional redemption date at the redemption price of par.

The Bonds will accrue interest from their date of delivery to their maturity or prior redemption, as applicable. Interest is payable semi-annually each June 15 and December 15, beginning December 15, 2014, and if such day is not a Business Day, the next Business Day without additional interest.

The Series 2013T Bonds are not subject to redemption prior to maturity at the option of the Issuer.

The Series 2013TE Bonds with a Final Maturity Date prior to December 15, 2025 are not subject to redemption prior to maturity at the option of the Issuer. The Series 2013TE Bonds with a Final Maturity Date on or after December 15, 2025 are subject to redemption prior to maturity at the option of the Issuer beginning on December 15, 2023 as set forth herein.

The Series 2013T Bonds initially will be issued in the denominations of \$100,000 or any whole multiple of \$1,000 in excess thereof, and the Series 2013TE Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, all to be held in a book-entry only system, registered in the name of Cede & Co., as registered owner and nominee of DTC, which will act as securities depository for the Bonds. See "THE BONDS—Securities Depository" in this Official Statement.

\* CUSIP numbers have been assigned by an organization not affiliated with the Issuer or the Authority and are included solely for the convenience of the holders of the Bonds. Neither the Issuer nor the Authority is responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the Bonds or as indicated above.

## **ABOUT THIS OFFICIAL STATEMENT**

### **UTILITY DEBT SECURITIZATION AUTHORITY**

#### **BOARD OF TRUSTEES**

**Paul Francis, Chair**  
**Robert Gurman, Vice Chair**  
**Bruce Levy, Committees Chair**

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Authority or the Underwriters to give any information or to make any representation, other than the information and representations contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information set forth herein has been furnished by the Issuer and the Authority, and also includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Authority, LIPA and PSEG-LI (as defined herein) since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements.

In connection with the offering of the Bonds, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THIS OFFICIAL STATEMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS**  
**THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING**  
**FOR INCLUSION IN THIS OFFICIAL STATEMENT**

**NOTICE TO RESIDENTS OF SINGAPORE**

THIS OFFICIAL STATEMENT HAS NOT BEEN REGISTERED AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE, AND THE BONDS WILL BE OFFERED PURSUANT TO EXEMPTIONS UNDER THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "SECURITIES AND FUTURES ACT"). ACCORDINGLY, THE BONDS MAY NOT BE OFFERED OR SOLD OR MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE NOR MAY THIS OFFICIAL STATEMENT OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF BONDS BE CIRCULATED OR DISTRIBUTED WHETHER DIRECTLY OR INDIRECTLY TO ANY PERSON IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT, (II) TO A RELEVANT PERSON PURSUANT TO SECTION 275(1) OF THE SECURITIES AND FUTURES ACT, OR ANY PERSON PURSUANT TO SECTION 275(1A) OF THE SECURITIES AND FUTURES ACT, AND IN ACCORDANCE WITH THE CONDITIONS, SPECIFIED IN SECTION 275 OF THE SECURITIES AND FUTURES ACT, OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SECURITIES AND FUTURES ACT.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SECURITIES AND FUTURES ACT BY A RELEVANT PERSON WHICH IS:

- (A) A CORPORATION (WHICH IS NOT AN "ACCREDITED INVESTOR" (AS DEFINED IN SECTION 4A OF THE SECURITIES AND FUTURES ACT)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR, OR
- (B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SHARES, DEBENTURES AND UNITS OF SHARES AND DEBENTURES OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST HOWEVER DESCRIBED IN THAT TRUST SHALL NOT BE TRANSFERABLE WITHIN SIX MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE FOREGOING SECURITIES PURSUANT TO AN OFFER MADE UNDER SECTION 275 OF THE SECURITIES AND FUTURES ACT EXCEPT:

- (1) TO AN INSTITUTIONAL INVESTOR (FOR CORPORATIONS, UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT) OR TO A RELEVANT PERSON DEFINED IN SECTION 275(2) OF THE SECURITIES AND FUTURES ACT, OR TO ANY PERSON PURSUANT TO AN OFFER THAT IS MADE ON TERMS THAT SUCH SECURITIES OF THAT CORPORATION OR SUCH RIGHTS AND INTEREST IN THAT TRUST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S\$200,000 (OR ITS EQUIVALENT IN ANY FOREIGN CURRENCY) FOR EACH TRANSACTION, WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS, AND FURTHER FOR CORPORATIONS, IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SECURITIES AND FUTURES ACT,
- (2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER, OR
- (3) WHERE THE TRANSFER IS BY OPERATION OF LAW.

**NOTICE TO RESIDENTS OF THE PEOPLE'S REPUBLIC OF CHINA**

THE BONDS SHALL NOT BE OFFERED OR SOLD IN THE PEOPLE'S REPUBLIC OF CHINA, EXCLUDING HONG KONG, MACAU AND TAIWAN (THE "PRC") AS PART OF THE INITIAL DISTRIBUTION OF THE BONDS.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE PRC TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN THE PRC.

NEITHER THE ISSUER NOR THE UNDERWRITERS REPRESENT THAT THIS OFFICIAL STATEMENT MAY BE LAWFULLY DISTRIBUTED, OR THAT ANY BONDS MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN THE PRC, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, OR ASSUME ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, NO ACTION HAS BEEN TAKEN BY THE ISSUING ENTITY WHICH WOULD PERMIT A PUBLIC OFFERING OF ANY BONDS OR THE DISTRIBUTION OF THIS OFFICIAL STATEMENT IN THE PRC. ACCORDINGLY, THE BONDS ARE NOT BEING OFFERED OR SOLD WITHIN THE PRC BY MEANS OF THIS OFFICIAL STATEMENT OR ANY OTHER DOCUMENT. NEITHER THIS OFFICIAL STATEMENT NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED IN THE PRC, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. THE STATE SHALL NOT BE RESPONSIBLE OR LIABLE FOR ANY APPROVALS, REGISTRATION OR FILING PROCEDURES REQUIRED BY THE PRC INVESTORS IN CONNECTION WITH THEIR SUBSCRIPTIONS UNDER THIS OFFICIAL STATEMENT UNDER THE LAWS OF THE PRC AS WELL AS ANY OTHER REQUIREMENTS UNDER OTHER FOREIGN LAWS.

#### **NOTICE TO RESIDENTS OF JAPAN**

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED, THE "FINANCIAL INSTRUMENTS AND EXCHANGE ACT"), AND EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT IT WILL NOT OFFER OR SELL ANY OF THE BONDS, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT OF JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN) OR TO, OR FOR THE BENEFIT OF OTHERS FOR REOFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES AND REGULATIONS OF JAPAN.

#### **NOTICE TO RESIDENTS OF HONG KONG**

EACH OF THE UNDERWRITERS HAS REPRESENTED AND AGREED THAT:

IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER OR SELL IN HONG KONG, BY MEANS OF ANY DOCUMENT, ANY BONDS OTHER THAN (A) TO "PROFESSIONAL INVESTORS" AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF HONG KONG AND ANY RULES MADE UNDER THAT ORDINANCE, OR (B) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A "PROSPECTUS" AS DEFINED IN THE COMPANIES ORDINANCE (CAP. 32) OF HONG KONG OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THAT ORDINANCE; AND

IT HAS NOT ISSUED OR HAD IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, AND WILL NOT ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAW OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO "PROFESSIONAL INVESTORS" AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) AND ANY RULES MADE UNDER THAT ORDINANCE.

## **NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA**

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), EACH OF THE UNDERWRITERS HAS REPRESENTED AND AGREED THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE “RELEVANT IMPLEMENTATION DATE”) IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF BONDS TO THE PUBLIC IN THAT RELEVANT MEMBER STATE PRIOR TO THE PUBLICATION OF A PROSPECTUS IN RELATION TO THE BONDS WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND PUBLISHED AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN THE RELEVANT MEMBER STATE OR FOLLOWING, IN EITHER CASE, TWELVE MONTHS AFTER SUCH PUBLICATION, EXCEPT THAT IT MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF SUCH BONDS TO THE PUBLIC IN THAT RELEVANT MEMBER STATE:

- (A) SOLELY TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE);
- (B) TO FEWER THAN 100 NATURAL OR LEGAL PERSONS (OR IF THE RELEVANT MEMBER STATE HAS IMPLEMENTED THE RELEVANT PROVISION OF THE 2010 AMENDING DIRECTIVE, 150 NATURAL OR LEGAL PERSONS) OTHER THAN QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE REPRESENTATIVE OF THE UNDERWRITERS FOR ANY SUCH OFFER; OR
- (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE.

PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE ISSUING ENTITY OR ANY UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE.

FOR PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF BONDS TO THE PUBLIC” IN RELATION TO ANY BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE FOR THE BONDS, AS THE SAME MAY BE VARIED IN THAT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT MEMBER STATE, THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EU AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE OR AMENDING MEASURE IN EACH RELEVANT MEMBER STATE AND THE EXPRESSION “2010 AMENDING DIRECTIVE” MEANS DIRECTIVE 2010/73/EU.

## **NOTICE TO RESIDENTS OF THE UNITED KINGDOM**

EACH OF THE UNDERWRITERS HAS REPRESENTED AND AGREED THAT (A) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED (THE “FSMA”)) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE BONDS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE ISSUING ENTITY; AND (B) IT HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE BONDS IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.

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## SUMMARY STATEMENT

The following information is furnished solely to provide limited introductory information regarding the Utility Debt Securitization Authority (the “Issuer”), the Long Island Power Authority (the “Authority” and in its capacity as the seller of the Restructuring Property, sometimes referred to herein as the “Seller”), the Long Island Lighting Company (“LIPA,” in its capacity as servicer of the Restructuring Property, sometimes referred to herein as “Servicer” and in its capacity as administrator of the Issuer, sometimes referred to herein as “Administrator”), Public Service Enterprise Group Incorporated (“PSEG”), PSEG Long Island LLC (“PSEG-LI”), and the Bonds and does not purport to be comprehensive. Such information is qualified in its entirety by reference to the more detailed information and descriptions appearing elsewhere in this Official Statement and should be read together therewith. The offering of the Bonds is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to make offers to sell, or solicit offers to buy, the Bonds unless the entire Official Statement is delivered in connection therewith. Terms not defined elsewhere in this Official Statement are used as defined in Appendix A hereto.

*Purpose of the Transaction:* This issuance of the Bonds by the Issuer will enable the Authority to retire certain of its outstanding indebtedness. See “THE SECURITIZATION LAW” in this Official Statement.

*Issuer:* The Issuer is a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York, created by Part B of Chapter 173, Laws of New York, 2013 (the whole of Chapter 173, Laws of New York, 2013, the “LIPA Reform Act” and Part B thereof, the “Securitization Law”). The Issuer has no commercial operations. The Issuer was formed solely to purchase and own the Restructuring Property, to issue the Bonds which are to be secured by the Restructuring Property, and to perform any activity incidental thereto. The Securitization Law prohibits the Issuer from engaging in any other activity except as specifically authorized by the Financing Order and provides that the Issuer is not authorized to be a debtor under chapter 9 or any other provision of the Bankruptcy Code. Under current law, the Bonds are the only bonds which may be issued by the Issuer and secured by the Collateral (as defined herein). See “THE SECURITIZATION LAW.”

*Seller:* The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York. The Authority has a wholly-owned subsidiary, the Long Island Lighting Company (described below), which does business under the name of LIPA.

*Servicer and its Service Area:* LIPA provides electric transmission and distribution services in a geographical area which includes the New York Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County, New York known as the Rockaways. As described in this Official Statement, the Authority and LIPA have entered into agreements with third parties to provide the service and maintenance functions in connection with their operations.

As of December 31, 2012, LIPA served approximately 1.1 million customers and experienced its peak usage of approximately 5,771 MW in the summer of 2011. In 2012, approximately 55 percent of annual electric revenues were generated by residential customers, 44 percent by commercial/industrial customers, and the balance by municipalities and public authorities. LIPA’s largest customer in 2012, The Long Island Rail Road, accounted for less than two percent of LIPA’s total sales and less than two percent of revenue.

LIPA, acting as initial servicer pursuant to the Servicing Agreement (as described herein), or any Successor Servicer as provided by the Financing Order, will be responsible for the servicing of the Restructuring Property, including the billing and collection of the Restructuring Charges securing the Restructuring Bonds on

behalf of the Issuer. The Issuer and LIPA will also enter into an Administration Agreement (the “Administration Agreement”) pursuant to which LIPA, acting as Administrator, will perform certain duties on behalf of the Issuer.

*LIPA’s Relationship with the Authority and Service Providers:*

The Authority and LIPA are parties to a Financing Agreement (the “Financing Agreement”) providing for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area. Pursuant to the terms of the Financing Agreement, LIPA conducts the electric business in the Service Area and is responsible for providing service to customers in the Service Area. In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority and LIPA have entered into operating agreements, the purpose of which is to provide the Authority and LIPA with the operating personnel and a significant portion of the power supply resources necessary for LIPA to continue to provide electric service in the Service Area. Since May 1998, most such operations have been performed by National Grid plc (“National Grid”), a multi-national electric and gas utility company, its subsidiaries (“National Grid Subs”) or their predecessors. Beginning on January 1, 2014, PSEG-LI, a wholly-owned subsidiary of PSEG dedicated to LIPA’s operations, will provide the T&D System management services including, among other functions, the day-to-day operation and maintenance of the T&D System, customer service, billing and collection, meter reading and forecasting. These services include many of the services that LIPA has contracted to perform as Servicer. Under the OSA (as defined herein), the PSEG-LI management company is the contracting entity with LIPA and is expected to consist of approximately 20 employees, while its dedicated subsidiary, the PSEG-LI service company, is expected to consist of approximately 2,250 employees. PSEG-LI as used herein generally refers to both the management company and the service company, collectively.

*Transaction Overview:*

On June 21, 2013, the New York State Assembly and Senate passed the LIPA Reform Act which, among other things, allows for the retirement of certain outstanding indebtedness of the Authority through the issuance of restructuring bonds by the Issuer. The LIPA Reform Act was signed by the Governor of the State of New York on July 29, 2013, and on August 28, 2013, the time for filing any challenges to the LIPA Reform Act expired with no such challenges having been filed.

The Securitization Law permits the Authority’s Board of Trustees (the “Authority Trustees”) to adopt the Financing Order which, among other things, authorizes the creation of the Restructuring Property and issuance of Restructuring Bonds in an amount not to exceed \$3.5 billion by the Issuer to provide funds for the purchase of the Restructuring Property from the Authority. The Restructuring Property includes the irrevocable right to impose, bill and collect the Restructuring Charges from all Customers (as defined herein). The Financing Order was adopted by the Authority Trustees on October 3, 2013, was deemed approved by the New York Public Authorities Control Board (the “PACB”) on October 21, 2013 and became irrevocable, final and non-appealable on November 21, 2013. See “THE FINANCING ORDER” herein.

The Authority is authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay or defease certain of its outstanding debt (“Refunded Debt”). See “THE FINANCING ORDER—General; Creation of Restructuring Property; Irrevocability” in this Official Statement.

The primary transactions underlying the offering of the Bonds are as follows:

- The Issuer will issue the Bonds and use the proceeds thereof to pay the purchase price of the Restructuring Property to the Authority and to pay costs of issuance and related costs (“Upfront Financing Costs,” as further

described herein). The Restructuring Property will serve as the primary security for the Bonds.

- The Authority will use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay or defease the Refunded Debt.
- LIPA will act as the initial servicer of the Restructuring Property pursuant to the terms of the Servicing Agreement (as described herein). As described in more detail herein, pursuant to the OSA, PSEG-LI will, among other things, perform the billing and collections, meter reading and forecasting required of the Servicer under the Servicing Agreement.

The Bonds are not obligations of the Trustee, the Authority, LIPA, PSEG-LI or any of their affiliates. The Bonds are also not a debt and do not constitute a pledge of the faith and credit or taxing power of the State of New York or of any county, municipality, or any other political subdivision, agency or instrumentality of the State of New York other than the Issuer.

*Bond Structure:*

The Bonds will be issued in two series, Series 2013T and Series 2013TE, each of which is secured by the Collateral on a pari passu basis.

Series 2013T Bonds will be issued in four tranches. Series 2013TE Bonds will be issued in seventeen tranches. All of the Series 2013T Bonds are Term Bonds under the Indenture. The Series 2013TE-1 Bonds through the Series 2013TE-7 Bonds are Serial Bonds under the Indenture and the Series 2013TE-8 Bonds through the Series 2013TE-17 Bonds are Term Bonds under the Indenture.

The Series 2013T Bonds are not subject to redemption prior to maturity at the option of the Issuer. The Series 2013TE Bonds with a Final Maturity Date prior to December 15, 2025 are not subject to redemption prior to maturity at the option of the Issuer. The Series 2013TE Bonds with a Final Maturity Date on or after December 15, 2025 are subject to redemption prior to maturity at the option of the Issuer beginning on December 15, 2023. See “THE BONDS—Redemption” in this Official Statement.

The Series 2013T Bonds and the Series 2013TE Bonds are scheduled to pay principal semi-annually and sequentially. See “THE BONDS—Expected Amortization Schedules” in this Official Statement.

*Use of Proceeds:*

The Bonds are being issued to provide the Issuer with funds to purchase the Restructuring Property from the Authority and to pay the Upfront Financing Costs. The Authority will use the sales proceeds of the Restructuring Property to retire the Refunded Debt. See “PLAN OF FINANCE AND USE OF PROCEEDS” in this Official Statement.

*True-Up Adjustment Mechanism:*

As required by the Securitization Law and the Financing Order, the Restructuring Charges will be adjusted at least annually and, if determined by the Servicer in connection with a mid-year review process to be necessary, semi-annually or more frequently, to ensure that the expected collections of the Restructuring Charges are adequate to timely pay all scheduled payments of principal and interest on the Bonds and other all Ongoing Financing Costs when due. Following the last Scheduled Maturity Date of the Bonds of any series, if any such Bonds remain outstanding after such Scheduled Maturity Date, the Servicer is also required to make True-Up Adjustments quarterly to ensure that Charge Collections will be sufficient to pay timely principal and interest, and all other Ongoing Financing Costs, due on the next Payment Date. The Financing Order also permits the Servicer to make True-Up Adjustments more frequently at any time as necessary to ensure the timely scheduled payments of principal and interest on the Bonds, and all other Ongoing Financing Costs when due. The Financing Order does not cap the level of Restructuring Charges that may be

imposed on Customers as a result of the True-Up Adjustments. Through the True-Up Adjustment, all Customers cross share in the liabilities of all other Customers for the payment of Restructuring Charges. See “THE FINANCING ORDER—True-Up Adjustment Mechanism” in this Official Statement.

*Nonbypassable Restructuring Charges:*

The Securitization Law mandates that the Restructuring Charges are irrevocable, nonbypassable consumption-based charges. “Nonbypassable” means that the Restructuring Charges shall be collected from Customers, as long as such Customer is connected to the T&D System Assets and is taking electric delivery service in the Service Area, even if such Customer also produces some of its own electricity or purchases electric generation services from a provider of electric generation services who is not the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA. Certain Customers that self-generate eligible renewable power will only be responsible for paying Restructuring Charges based upon their “net-billed” consumption. See “THE FINANCING ORDER—Collection of Restructuring Charges; Nonbypassability” and “RISK FACTORS—Customer and Delivery Related Risks” in this Official Statement.

*State Pledge:*

The State has pledged in the Securitization Law that it will not in any way take or permit any action that limits, alters or impairs the value of the Restructuring Property, or, except as required by the True-Up Adjustment mechanism, reduce, alter, or impair the Restructuring Charges to be imposed, collected and remitted to Holders until the principal and interest in connection with the Bonds and all other Ongoing Financing Costs have been paid and performed in full. See “THE SECURITIZATION LAW—State Pledge” and “RISK FACTORS” in this Official Statement.

*Trustee:*

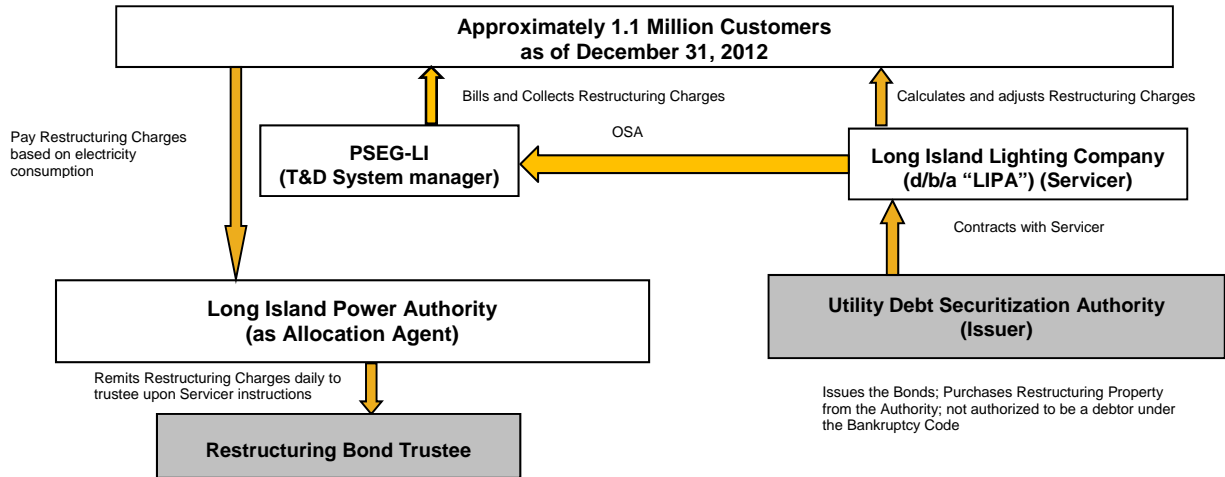
The Bank of New York Mellon. See “THE TRUSTEE” in this Official Statement for a description of the Trustee and its duties and responsibilities under the Indenture.

*Servicing Fee:*

The annual servicing fee (the “Servicing Fee”) relating to the Bonds payable to LIPA, as the initial Servicer, or to any Successor Servicer affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets, shall be 0.05% of the aggregate initial principal amount of the Bonds. In addition, the Servicer will also be reimbursed for its expenses incurred in carrying out its obligations under the Servicing Agreement. The annual Servicing Fee for any Successor Servicer not affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets may be higher than the Servicing Fee for LIPA; provided, however, that any Servicing Fee in excess of 0.60% of the aggregate initial principal amount of the Bonds shall be subject to approval by the Authority and the Trustee.

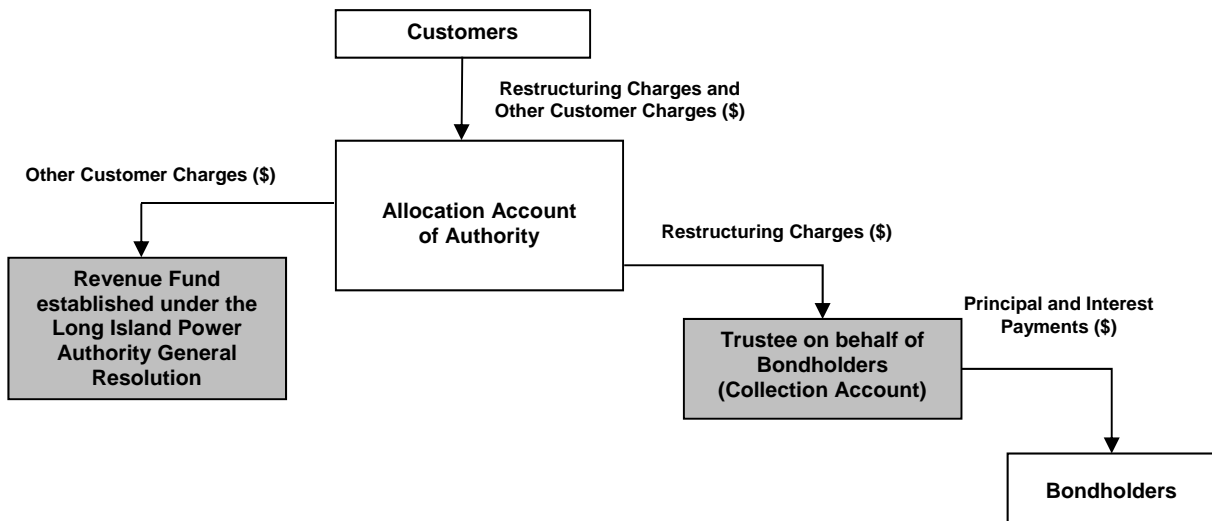
*Parties to Transaction and Responsibilities:*

The following chart represents a general summary of the parties to the transactions underlying the offering of the Bonds, their roles and their various relationships to the other parties:



*Flow of Funds to Bondholders:*

The following chart represents a general summary of Customer payments (including Restructuring Charges as well as other charges which are not security for the Restructuring Bonds):



*Priority of Payments:*

On each Payment Date, or for any amount payable under clauses (i) through (iv) below, on any Business Day upon which the Trustee receives a written request from the Administrator stating that any of such Operating Expenses payable by the Issuer will become due and payable prior to the next succeeding Payment Date, the Trustee shall pay or allocate, at the direction of the Servicer, all amounts on deposit in the Collection Account (including all earnings thereon) to pay the following amounts in the following priority:

- (i) all fees, costs, expenses (including legal fees and expenses) and, to the extent not in excess of \$800,000 in each calendar



year, indemnity amounts owed by the Issuer to the Trustee under the applicable Basic Documents shall be paid to the Trustee,

- (ii) the Servicing Fee for such Payment Date and all unpaid Servicing Fees from prior Payment Dates, to the extent of Servicing Fees not in excess of 0.60% of the aggregate initial principal amount of the Bonds in each calendar year, shall be paid to the Servicer,
- (iii) the Administration Fee and all unpaid Administration Fees from prior Payment Dates shall be paid to the Administrator,
- (iv) the payment of all other Ongoing Financing Costs (other than as provided in clauses (viii) and (ix) below) for such Payment Date shall be paid to the Persons entitled to such payment,
- (v) (A) first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable Bond Interest Rate) and (B) second, interest due on such Payment Date shall be paid to the Holders,
- (vi) principal due and payable on the Bonds as a result of an Event of Default (assuming the Bonds have been declared immediately due and payable) or on the Final Maturity Date of a tranche of the Bonds shall be paid to the Holders,
- (vii) principal for such Payment Date will be paid to the Holders in accordance with the priorities described in “THE BONDS—Principal of the Bonds” in this Official Statement,
- (viii) indemnity amounts owed by the Issuer to the Trustee to the extent in excess of \$800,000 in each calendar year shall be paid to the Trustee and premiums for directors’ and officers’ liability insurance for trustees and officers of the Issuer shall be paid to the provider of such insurance, or, if such premium is paid by the Administrator pursuant to the Administration Agreement, the amount of such premium shall be paid to the Administrator in reimbursement thereof,
- (ix) the Servicing Fee for such Payment Date, and all unpaid Servicing Fees from prior Payment Dates, to the extent of Servicing Fees in excess of 0.60% of the aggregate initial principal amount of the Bonds in each calendar year, shall be paid to the Servicer,
- (x) the amount, if any, by which the Required Reserve Level (as defined herein) exceeds the amount in the Reserve Subaccount (as defined herein) as of such Payment Date will be paid or allocated to the Reserve Subaccount, and
- (xi) the balance, if any, will be paid or allocated to the Excess Funds Subaccount (as defined herein) for distribution on subsequent Payment Dates.

See “SECURITY FOR THE BONDS—How Funds in the Collection Account Will Be Allocated” in this Official Statement.

*Security:*

The Bonds are secured only by the Collateral, consisting primarily of the Restructuring Property and funds on deposit in the Collection Account for the Bonds and related subaccounts (except for the Upfront Financing Costs

Subaccount).

The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge from all existing and future retail electric customers taking electric transmission or distribution service within the Service Area (as defined herein) from LIPA, the Authority or any of its successors or assignees (“Customers”). For a description of the Restructuring Property and the Restructuring Charges, see “THE RESTRUCTURING PROPERTY” in this Official Statement.

*Credit Ratings:*

The Issuer expects the Bonds will receive credit ratings of “Aaa (sf)” by Moody’s, “AAA (sf)” by S&P, and “AAA (sf)” by Fitch. It is a condition to the issuance of the Bonds that such ratings are received.

*Minimum Denomination:*

For Series 2013T Bonds, \$100,000 or any whole multiple of \$1,000 in excess thereof; for Series 2013TE Bonds, \$5,000 or any integral multiples thereof.

*Reports to Bondholders:*

Pursuant to the Servicing Agreement and the Continuing Disclosure Agreement, the Servicer will provide regular reports prepared by the Servicer containing information concerning, among other things, the Issuer and the Collateral. See “CONTINUING DISCLOSURE.”

*Payment Dates and Interest  
Accrual:*

Semi-annually, June 15 and December 15. Interest will be calculated on a 30/360 basis. The first scheduled Payment Date is December 15, 2014. If a Payment Date is not a Business Day, then payment will be made on the next Business Day without additional interest.

*Scheduled Maturity Dates and  
Final Maturity Dates:*

A scheduled principal payment amount of Bonds is payable on each Payment Date, as shown herein. Failure to pay a scheduled principal payment on any Payment Date or the entire outstanding amount of the Bonds of any tranche by the final Scheduled Maturity Date will not result in a default with respect to that tranche. The failure to pay the entire outstanding principal balance of the Bonds of any tranche will result in a default only if such payment has not been made by the Final Maturity Date for the tranche.

*Tax Treatment:*

Interest on the Series 2013T Bonds is included in gross income for federal income tax purposes. Interest on the Series 2013TE Bonds is excluded from gross income for federal income tax purposes. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof. See “TAX MATTERS” in this Official Statement.

*Restructuring Charges as a  
Portion of Customers’ Total  
Electric Bill:*

The initial Restructuring Charge for the Bonds is expected to represent approximately 6.9% of the total bill received by an average 1,000 kWh residential Customer.

*Expected Settlement:*

The closing will be on or about December 18, 2013, settling flat through DTC, Clearstream Banking, Luxembourg, S.A. (“Clearstream”) and Euroclear (“Euroclear”).

*Legality for Investment:*

Pursuant to the Securitization Law, the Bonds are legal investments for all governmental units, financial institutions, insurance companies, fiduciaries, and other persons located in the State that require statutory authority regarding legal investment.

*Risk Factors:*

**Potential investors should consider carefully the risk factors beginning on page 60 of this Official Statement before investing in the Bonds.**

**\$2,022,324,000**  
**UTILITY DEBT SECURITIZATION AUTHORITY**  
**RESTRUCTURING BONDS SERIES 2013T AND SERIES 2013TE**

Consisting of:

<b>\$482,934,000</b>	<b>\$1,539,390,000</b>
<b>Restructuring Bonds Series 2013T</b>	<b>Restructuring Bonds Series 2013TE</b>
<b>(Federally Taxable)</b>	<b>(Federally Tax-Exempt)</b>

**INTRODUCTORY STATEMENT**

This Official Statement is provided to furnish information in connection with the issuance by the Issuer of its \$2,022,324,000 Restructuring Bonds, consisting of \$482,934,000 Series 2013T and \$1,539,390,000 Series 2013TE. The Bonds will be issued pursuant to the Indenture. Terms not defined elsewhere herein are used as defined in Appendix A hereto.

The Bonds will be secured primarily by the Restructuring Property, which will primarily consist of the Authority's irrevocable right to impose, bill and collect a nonbypassable consumption-based Restructuring Charge from Customers. See "THE RESTRUCTURING PROPERTY." Restructuring Charges are set and periodically adjusted, as discussed below, to collect amounts sufficient to pay principal of and interest on the Bonds on a timely basis and all other Ongoing Financing Costs. See "THE FINANCING ORDER—True-Up Adjustment Mechanism."

The Restructuring Charges will be collected by (or on behalf of) LIPA, as the initial Servicer, pursuant to the terms of a Servicing Agreement between LIPA and the Issuer. As described herein, the Authority and LIPA have entered into operating agreements, the purpose of which is to provide the Authority and LIPA with the operating personnel and a significant portion of the power supply resources necessary for LIPA to continue to provide electric service in the Service Area. Beginning January 1, 2014, PSEG-LI will be the T&D System manager pursuant to the Existing OSA (as defined herein) or the Amended OSA (as defined herein). As used herein, the term "OSA" means either the Existing OSA or the Amended OSA, each as may be amended and in effect from time to time. As T&D System manager, PSEG-LI will be performing a number of the functions that would otherwise be performed by the Servicer as described in more detail herein. See "SERVICER AND ADMINISTRATOR—Servicing the Bonds" in this Official Statement.

Brief descriptions of the Issuer, the Authority, LIPA, the Securitization Law, the Financing Order, the Bonds, the Sale Agreement, the Servicing Agreement, the Administration Agreement, and the Indenture are included in this Official Statement. Those descriptions and summaries do not purport to be comprehensive or definitive. Certain information relating to DTC and the book-entry only system has been furnished by DTC. Appendix B, Appendix C, Appendix D and Appendix E contain the proposed forms of certain opinions to be delivered in connection with the issuance and delivery of the Bonds. The descriptions of the Bonds and other documents are qualified in their entirety by reference to them. Copies of documents relating to the Bonds may be obtained at the designated office of the Trustee, 101 Barclay Street-Floor 7-West, New York, New York 10286.

**PLAN OF FINANCE AND USE OF PROCEEDS**

The proceeds of the Series 2013T Bonds and the Series 2013TE Bonds will be used by the Issuer to pay to the Authority the purchase price of the Restructuring Property and to pay the Upfront Financing Costs. The Authority will use the monies received from the sale of the Restructuring Property to purchase, redeem, repay or defease the Refunded Debt.

Upfront Financing Costs incurred in connection with the issuance and sale of the Bonds and the creation and acquisition of the Restructuring Property, net of underwriting discounts and commissions of \$10,876,185.72 and net of the deposit to the Reserve Subaccount of \$10,111,620.00, are estimated to be approximately \$4,705,500.00.

**THE SECURITIZATION LAW**

**Background**

On June 21, 2013, the New York State Assembly and Senate passed the LIPA Reform Act, codified as Chapter 173, Laws of New York. The Securitization Law is Part B of the LIPA Reform Act and allows the

Authority to finance the redemption, payment and retirement of its Refunded Debt through the issuance of Bonds by the Issuer. The Securitization Law establishes a process to obtain a financing order pursuant to which the Authority is allowed to impose an irrevocable, nonbypassable Restructuring Charge on all Customers for repayment of such Bonds. The Securitization Law was signed on July 29, 2013, and on August 28, 2013, the time for filing any challenges to the LIPA Reform Act expired and no such challenges were filed. The Authority, acting through LIPA, provides electric delivery service in its service area which includes two counties on Long Island – Nassau County (“Nassau County”) and Suffolk County (“Suffolk County”) (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its individually-owned municipal electric system) – and a portion of the Borough of Queens of The City of New York known as the Rockaways (the “Service Area”). For purposes of the Bond financing, the “Service Area” is defined by the Securitization Law and is set as the service area of LIPA as of July 29, 2013.

### **Purpose of Securitization Law**

The purpose of the Securitization Law is to create the Issuer and provide a legislative foundation for its issuance of bonds (the “Bonds” or the “Restructuring Bonds”) to allow the Authority to retire a portion of its outstanding indebtedness. The issuance of the Bonds and the retirement of certain of the Authority’s indebtedness are expected to result in savings to Customers on a net present value basis.

### **Authorization of Restructuring Bonds Pursuant to Irrevocable Financing Order**

The Securitization Law authorizes the Authority to adopt a financing order approving the issuance of Restructuring Bonds. The Securitization Law also provides that any financing order will be irrevocable after the time for any appeal to such financing order has lapsed. The Securitization Law requires that the proceeds of the Bonds be used by the Issuer to purchase the Restructuring Property from the Authority and to pay or fund upfront financing costs. It also requires that the Authority use the proceeds of the Bonds it receives from its sale of the Restructuring Property to the Issuer only to pay approved restructuring costs which include, according to the Financing Order, the costs of repurchasing, redeeming, repaying or defeasing certain of the Authority’s outstanding indebtedness and upfront financing costs, and if funds remain after the approved restructuring costs are paid, to refund or credit to consumers any such surplus, to the extent practical. Under current law, the Bonds are the only bonds which may be issued by the Issuer and secured by the Collateral.

### **Restructuring Property**

The Securitization Law authorizes the creation and sale of restructuring property which will include the irrevocable right to impose, bill and collect Restructuring Charges from Customers. The Bonds are secured by and payable from the Restructuring Property.

### **True-Up Adjustment Mechanism**

The Securitization Law requires the Authority to include in any financing order a mechanism requiring that restructuring charges be reviewed and adjusted at least annually and if determined to be necessary, semi-annually or more frequently, to ensure that the expected collection of the Restructuring Charges is adequate to timely pay all scheduled payments of principal and interests on the Bonds and all other Ongoing Financing Costs when due. The Securitization Law provides that, once the Bonds are issued, any adjustments to the Restructuring Charge may only be challenged as to mathematical errors in the calculation. See “THE FINANCING ORDER—True-Up Adjustment Mechanism” and “THE SERVICING AGREEMENT—True-Up Adjustment Process” herein.

### **Restructuring Charges are Nonbypassable**

The Securitization Law provides that the Restructuring Charges are irrevocable and nonbypassable. “Nonbypassable” as set forth in the Securitization Law and the Financing Order means that a Customer is obligated to pay Restructuring Charges and may not avoid payment of such charges as long as such Customer is connected to the T&D System Assets and is taking electric delivery service in the Service Area, even if such Customer produces its own electricity or purchases electric generation services from a provider of electric generation services who is not the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA. Customers that self-generate eligible renewable power will only be responsible for paying Restructuring Charges based upon their “net-billed” consumption. See “THE RESTRUCTURING PROPERTY” in this Official Statement.

## **State Pledge**

As a provision of the Securitization Law, the State has pledged to and agreed with the Issuer, the Authority, the Holders, and other Financing Parties that, until the Bonds and any Ancillary Agreements have been paid and performed in full, the State shall not:

- (1) take or permit any action that limits, alters or impairs the value of the Restructuring Property,
- (2) in any way impair the rights and remedies of the Authority, the Issuer, LIPA, the Holders or any other Financing Parties or the security for such Bonds or Ancillary Agreements, or
- (3) except as permitted in connection with a true-up adjustment mechanism authorized by the Securitization Law and set forth in the Financing Order, reduce, alter, or impair Restructuring Charges that are to be imposed, collected, and remitted for the benefit of the Authority, the Issuer, the Holders and other Financing Parties, as applicable, until any and all principal and interest, all other Ongoing Financing Costs and all amounts to be paid to any assignee or Financing Party under any Ancillary Agreement in connection with the Bonds have been fully paid or performed in full. See “RISK FACTORS.”

## **Trustee’s Lien on Restructuring Property Protected**

The Securitization Law provides that the lien on the Restructuring Property will be perfected, valid and binding from the time when the pledge is made. The pledge is made in favor of the Trustee for the benefit of the Bondholders. The security interest will attach without any physical delivery of collateral or other act and such security interest shall (i) be valid, binding and perfected against all parties having claims of any kind in tort, contract or otherwise, regardless of whether the parties have notice of the lien and (ii) constitute a continuously perfected security interest and have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the Restructuring Property or those rights or interests.

The Securitization Law provides that the priority of security interests in the Restructuring Property will not be affected by:

- commingling of funds arising from Restructuring Charges with other funds, or
- any application of the True-Up Adjustment under the Financing Order.

See “RISK FACTORS—Risks Associated with the Unusual Nature of the Restructuring Property.”

## **Right of Sequestration**

The Securitization Law provides that if the Authority, LIPA or any third-party biller defaults in the required payment of Restructuring Charges collected by it, a New York court, upon application by an interested party and without limiting any other remedies available to that applicant, is required to order the sequestration and payment of the collections for the benefit of Bondholders, any assignee, and any Financing Party.

## **Characterize Transfer as True Sale**

The Securitization Law provides that, if the governing documentation in a transaction approved in a financing order states that the transfer is a sale or other absolute transfer, the Authority’s transfer of the Restructuring Property to the Issuer is a “true sale” under New York law and not a pledge or other financing (other than for federal, state and local income and franchise tax purposes). See “THE SALE AGREEMENT” and “RISK FACTORS—Risks Associated with Potential Bankruptcy Proceedings.” The Securitization Law also provides that the characterization of the sale, assignment or transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the Issuer shall not be adversely affected or impaired by, among other things, the occurrence of any of the following:

- commingling of revenues or other proceeds from Restructuring Charges with other amounts,
- retention by the Seller of a partial or residual interest in the Restructuring Property or the right to recover costs associated with taxes, payments in lieu of taxes, franchise fees or license fees imposed on the collection of Restructuring Charges,
- any recourse that the Issuer may have against the Seller,
- any indemnification rights, obligations or repurchase rights made or provided by the Seller,

- the obligation of the Seller to collect Restructuring Charges on behalf of an assignee,
- the treatment of the sale, assignment or transfer for tax, financial reporting or other purposes,
- any subsequent order of the Seller amending the Financing Order, or
- any application of the True-Up Adjustment mechanism provided in the Securitization Law.

### **Transfer and Ownership of Restructuring Property is Tax Exempt**

The Securitization Law provides that the transfer and ownership of Restructuring Property and the imposition, billing, and collection of Restructuring Charges are exempt from all taxes and similar charges imposed by the State or any county, municipal corporation, school district, local authority or other subdivision.

## **THE FINANCING ORDER**

### **General; Creation of Restructuring Property; Irrevocability**

On October 3, 2013, the Authority Trustees adopted the Financing Order that authorizes: (a) the creation of the Restructuring Property, (b) the sale of the Restructuring Property by the Authority to the Issuer, (c) the imposition, billing and collection of the Restructuring Charges on, to and from the Customers in the Service Area, (d) the issuance and sale of up to \$3,500,000,000 of Bonds by the Issuer, (e) the use by the Issuer of the proceeds from the sale of the Bonds to pay the purchase price of the Restructuring Property and the Upfront Financing Costs, and (f) the use by the Authority of the proceeds of the sale of the Restructuring Property to purchase, redeem, repay, or defease the Refunded Debt. The Securitization Law requires the PACB to approve the Financing Order. The PACB did not take any action and therefore it was deemed to have approved the Financing Order on October 21, 2013. The PACB has no authority to reconsider the Financing Order. Pursuant to the Securitization Law, the Financing Order became irrevocable, final and non-appealable on November 21, 2013.

Under the Financing Order, the Servicer has the right to impose, bill and collect (on behalf of the Issuer) Restructuring Charges, which right is included in the Restructuring Property created upon the sale of such Restructuring Property to the Issuer. As provided in the Securitization Law, the Financing Order is irrevocable and is not subject to modification or termination, and acknowledges that the State of New York has pledged not to take or permit any action that limits, alters or impairs the value of the Restructuring Property or, except as required by the true-up adjustment mechanism, reduce, alter or impair the Restructuring Charges that are imposed, billed or collected for the benefit of the Bondholders, any assignee, and any Financing Parties until all principal of and interest on the Bonds, all other Ongoing Financing Costs, and all amounts to be paid to an assignee or Financing Party under certain agreements entered into in connection with the Bonds are paid or performed in full. See “RISK FACTORS.”

### **Collection of Restructuring Charges; Nonbypassability**

The Financing Order provides that the Customers are responsible for paying the Restructuring Charges as long as such Customer is connected to the T&D System Assets and is taking electric delivery service in the Service Area, even if such Customer produces its own electricity or purchases electric generation services from a provider of electric generation services other than the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA. The Financing Order authorizes the Servicer to collect Restructuring Charges from such Customers. See “SERVICER AND ADMINISTRATOR—Revenues, LIPA’s Customer Bases and Electric Energy Consumption—Electricity Delivered to Customers, Total Billed Electricity Delivery Service Revenues and Customers.” Certain Customers that self-generate eligible renewable power will only be responsible for paying Restructuring Charges based upon their “net-billed” consumption.

The Authority’s tariff provides for net metering of certain residential and nonresidential customer-generators of renewable power, such as solar, wind, farm waste, micro-combined heat and power, fuel cells, micro-hydroelectric and hybrids. The amount of net metering permitted is established by the tariff. The net meters measure only the net amount of electricity provided to or by the customer-generator using the T&D System Assets. The tariff imposes limits on the amounts of rated generating capacity that an eligible customer-generator may have. The tariff further provides that the Authority will sign contracts with eligible customer-generators on a first come-first served basis until the total rated generating capacity of all such customer-generators in the Service Area is equal to 150,000 kilowatts for non-wind customer-generators and 15,300 kilowatts for wind customer-generators. The Authority plans voluntarily to propose an increase to the non-wind net billing limitation to 153,000 kilowatts in

December 2013, to more precisely conform to the recently updated policy of the PSC that authorizes such arrangements for amounts equal to 3% of the utility's load experienced in 2005.

The Financing Order does not cap any of the ongoing costs that may be recovered through the Restructuring Charge, and there is no cap on the level of Restructuring Charges that may be imposed on Customers through the true-up adjustment mechanism, which is designed to assure the expected collection of amounts required to pay scheduled principal and interest on the Bonds and all other Ongoing Financing Costs on a timely basis. Accordingly, such Restructuring Charges may continue to be imposed, billed and collected until the Bonds and all Ongoing Financing Costs are paid in full, without any specified time limit. The Financing Order contains a conclusion of law that the Restructuring Charges are "Transition Charges" as defined in the Authority's Electric System General Revenue Bond Resolution adopted on May 13, 1998 (the "General Resolution"), and that they are not subject to the lien of the General Resolution. In addition, the Authority will make a representation in the Sale Agreement to the effect that it is transferring the Restructuring Property free of any Liens. Hawkins Delafield & Wood LLP expects to render an opinion in connection with the issuance of the Bonds to the effect that the Restructuring Charges are not subject to the lien of the General Resolution or the Subordinated General Resolution.

### **Terms of Bonds**

The Financing Order provides certain parameters for the issuance of the Bonds, including that there will be a Scheduled Maturity Date and a Final Maturity Date for each series or tranche (that will not be more than two years following the Scheduled Maturity Date), provided that no Final Maturity Date will be later than 30 years from the date of issuance. As described below, the Issuance Advice Letter will confirm the final interest rates and certain other terms for the Bonds.

### **Restructuring Charges on Customer Bills**

The Servicer will disclose on each Customer's monthly bill by a footnote or other description the amount of the Restructuring Charge or the amount of the Restructuring Charge per kWh. Such description will include a statement that the Restructuring Charge is payable to the Issuer. The calculation of the initial Restructuring Charge will be stated in the Issuance Advice Letter. See "THE RESTRUCTURING PROPERTY—Restructuring Charges."

### **True-Up Adjustment Mechanism**

The initial True-Up Adjustment to the Restructuring Charges will be completed within 12 months after the Issuance Date of the Bonds. Thereafter, during the life of the Bonds, the Servicer will calculate and adjust the Restructuring Charges at least annually (each, an "Annual True-Up Adjustment"), effective each January 1, commencing with January 1, 2015, to correct for any overcollections or undercollections to date and anticipated to be experienced up to the date of the next annual adjustment and to ensure that the expected collections of Restructuring Charges are adequate to pay timely principal and interest on the Bonds when due pursuant to the applicable Expected Amortization Schedule and to make timely payment on all other Ongoing Financing Costs. Before June 1 of each year, the Servicer is also required to perform a mid-year review (each, a "Mid-Year Review"). If a Mid-Year Review reveals that the Charge Collections will be insufficient to pay timely principal and interest on the Bonds when due pursuant to the applicable Expected Amortization Schedule and to make timely payment on all other Ongoing Financing Costs, the Servicer will file an Adjustment Notice before June 1 of such calendar year, to be effective July 1 of such calendar year (each, a "Mid-Year True-Up Adjustment"). The Servicer may file a true-up adjustment more frequently at any time to ensure that the expected collections of the Restructuring Charges are adequate to pay timely principal and interest on the Bonds when due pursuant to the applicable Expected Amortization Schedule and to make timely payment on all other Ongoing Financing Costs (each, an "Optional True-Up Adjustment"). In addition, following the last Scheduled Maturity Date of the Bonds of any series, if and so long as any such Bonds remain outstanding after such Scheduled Maturity Date, the Servicer is also required to make such true-up adjustments quarterly to ensure that Charge Collections will be sufficient to pay timely principal and interest, and all other Ongoing Financing Costs due on the next Payment Date (each, a "Quarterly True-Up Adjustment" and, together with Annual True-Up Adjustments, Mid-Year Adjustments and Optional True-Up Adjustments, a "True-Up Adjustment"). The Quarterly True-Up Adjustments will be set at levels estimated to generate revenues sufficient to pay all principal and interest on the Bonds on the next Payment Date, together with all other Ongoing Financing Costs.

The adjustments to the Restructuring Charges will continue until principal of and interest on the Bonds and other Ongoing Financing Costs have been paid or performed in full.

There is no cap on the amount of Restructuring Charges that may be imposed on Customers as a result of a True-Up Adjustment.

The Servicer must file with the Authority and the Issuer, approximately 30 days before the effective date of an adjustment, an Adjustment Notice to the Restructuring Charge during which period the Authority may confirm the mathematical accuracy of the Servicer's adjustment. Each True-Up Adjustment will go into effect on a bills rendered basis on a date which is no earlier than 30 days subsequent to the date of submission of the Adjustment Notice. In the event any correction is necessary to a True-Up Adjustment due to mathematical errors in the calculation of the adjustment or otherwise is necessary, the adjustment to the mathematically incorrect Restructuring Charge adjustment will take effect no sooner than the billing cycle in the month that begins at least five days after the Authority notifies the Servicer of its determination that the calculation of such True-Up Adjustment is mathematically inaccurate.

### **Issuance Advice Letter**

By no later than three Business Days following the pricing date for the Bonds and prior to their issuance, the Servicer will, as required under the Financing Order, file with the Authority and the Issuer an Issuance Advice Letter, pursuant to which the Servicer will:

- calculate the expected savings to Customers from the financing,
- estimate the Ongoing Financing Costs,
- determine and specify the initial Restructuring Charge, and
- evidence the final terms on which the Bonds will be issued.

A designee of the Authority is authorized under the Financing Order to review and approve the Issuance Advice Letter for the purpose of confirming that the stated terms are consistent with the Financing Order. This designee's approval and confirmation shall constitute the Authority's approval and confirmation, and will be final and incontestable, without need for further action by the Authority.

### **Servicing Agreement**

In the Financing Order, the Issuer and LIPA were authorized to enter into the Servicing Agreement described under "The Servicing Agreement" in this Official Statement. Pursuant to the OSA, PSEG-LI will be the T&D System manager and will perform, among other things, the billing and collection, meter reading and forecasting required by the Servicing Agreement on behalf of the Servicer. LIPA will be responsible for taking all necessary action in connection with True-Up Adjustments and certain reporting requirements. See "SERVICER AND ADMINISTRATOR—Servicing the Bonds" and "THE SERVICING AGREEMENT—Servicing Procedures" in this Official Statement.

### **Binding on Successors**

The Financing Order and the Restructuring Charges authorized in the Financing Order are binding on the Authority, LIPA, any successor to the Authority or LIPA and any Successor Servicer to LIPA.

## **THE RESTRUCTURING PROPERTY**

### **Overview**

The Restructuring Property of the Authority consists generally of its property, rights and interests under the Financing Order, including the Authority's irrevocable right:

- to impose, bill and collect irrevocable, nonbypassable Restructuring Charges from each Customer, and
- to adjust those Restructuring Charges, in accordance with the true-up adjustment mechanism set forth in the Financing Order, in an amount sufficient to pay principal and interest on its Bonds and all other Ongoing Financing Costs approved under the Financing Order.

The Restructuring Property also includes all revenues, collections, claims, payments, money or proceeds from the Restructuring Charges.

The Issuer will purchase the Restructuring Property from the Seller. The Bonds are secured primarily by the Restructuring Property. The Restructuring Property is not a receivable and, as the primary collateral securing the



Bonds, is not a pool of receivables. Charge Collections from the Restructuring Charges, as such charges may be adjusted pursuant to the True-Up Adjustment mechanism, will be used to pay principal of and interest on the Bonds and all other Ongoing Financing Costs approved under the Financing Order. These irrevocable nonbypassable charges will be included in the Customers' bills, and will be collected until the Bonds and Ongoing Financing Costs are paid in full. Restructuring Charges may not be reduced, altered or impaired except for periodic adjustments, in accordance with the True-Up Adjustment mechanism, to correct overcollections or undercollections to ensure the recovery of amounts sufficient to timely pay principal of and interest on the Bonds and all other Ongoing Financing Costs. All revenues and collections from Restructuring Charges provided for in the Financing Order are part of the Restructuring Property.

### **Creation of Restructuring Property**

Under the Financing Order, the Restructuring Property is created simultaneous with its sale to the Issuer. The Restructuring Property is a property right consisting generally of the irrevocable right to impose, bill and collect Restructuring Charges from Customers, the right to adjust those Restructuring Charges and the right to all revenues, collections, claims, payments, money or proceeds of or arising from the Restructuring Charges and the property, rights and interests created under the Financing Order. The Bonds will be secured by the Restructuring Property, as well as the other Collateral described under "THE SECURITY FOR THE BONDS—Pledge of Collateral."

### **Restructuring Charges**

The Restructuring Charges will be set and adjusted thereafter as necessary to generate revenues required:

- to pay fees and expenses related to the servicing and collection and retirement of the Bonds including, without limitation, fees and expenses related to Trustee costs, rating agency surveillance fees, legal and accounting fees which are included in the Ongoing Financing Costs, as well as adjustments for dealing with estimated and actual costs,
- to pay interest on the Bonds,
- to pay principal of each tranche of such Bonds according to the related Expected Amortization Schedule,
- to replenish the Reserve Subaccount to the Required Reserve Level, and
- to pay all additional fees, costs and charges and all other Ongoing Financing Costs approved under the Financing Order.

### **No Right of Set-Off; Partial Payment of Customer Charges**

The obligation to pay the Restructuring Charges is not subject to any right of set-off in connection with the bankruptcy of the Servicer or any other entity. If any Customer does not pay the full amount of any bill to the Servicer, the amount paid by the Customer will be applied pro rata between the Restructuring Charges and the other charges unless the Customer specifies that a greater proportion of such payment is to be allocated to the Restructuring Charges, except that other charges are to be reduced by the amount of any set-off, counterclaim, surcharge or defense.

## **THE BONDS**

### **General**

The Bonds will be dated the Issuance Date and interest thereon will be payable on the dates set forth on the inside cover page of this Official Statement. The initial principal amount, Scheduled Maturity Dates, Final Maturity Dates and Interest Rate of each tranche of each series of Bonds is set forth on the inside cover page of this Official Statement.

The Series 2013T Bonds will be issued in authorized denominations of \$100,000 or any whole multiple of \$1,000 in excess thereof, and the Series 2013TE Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

The Bonds originally will be issued solely in book-entry only form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry only system. So long as the Bonds are held in the book-entry only system, DTC or its nominee will be the registered owner of the Bonds for all purposes of the Indenture, the Bonds and this Official

Statement. For purposes of this Official Statement, DTC or its nominee, and its successors, are referred to as the “Securities Depository.” See “—Securities Depository” below.

The Bank of New York Mellon is the Trustee under the Indenture and also is the Bond Registrar, Authenticating Agent and Paying Agent for the Bonds.

Payments on the Bonds will be made to the holders of the Bonds as of the Record Date, or special record date, as established in the Indenture. If any Payment Date or special payment date specified for any payments to Bondholders is not a Business Day, the Trustee will make payments scheduled to be made on the next succeeding Business Day and no interest will accrue during the intervening period.

### **Interest on the Bonds**

Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be paid to the Holder as of the Business Day preceding each Payment Date, June 15 and December 15, beginning December 15, 2014, in immediately available funds by wire transfer as long as the Securities Depository is the Holder and otherwise subject to a minimum holding on the Payment Date. If any interest on the Bonds is due on a non-Business Day, it will be made on the next Business Day, and no additional interest will accrue as a result.

The failure to pay accrued interest on any Payment Date (even if the failure is caused by a shortfall in Restructuring Charges received) will result in an Event of Default for the Bonds unless such failure is cured within five Business Days. Any interest not paid when due (plus interest on the defaulted interest at the applicable interest rate to the extent lawful) will be payable to the Bondholders on a special record date as provided in the Indenture and the Administration Agreement.

### **Principal of the Bonds**

Scheduled payments of principal on each tranche of each series of Bonds are reflected on the Expected Amortization Schedules below.

To the extent funds are available in the Collection Account (other than funds in the Upfront Financing Costs Subaccount), principal payments shall be made on each Payment Date in accordance with the priority of payment set forth below under the heading “SECURITY FOR THE BONDS—How Funds in the Collection Account Will Be Allocated,” with scheduled payments of principal of the Bonds being made to the Holders of the Series 2013T Bonds and Series 2013TE Bonds in order of their Final Maturity Dates.

No principal payment on any tranche of Bonds shall be made on any Payment Date prior to the payment in full of all of the principal of all tranches of such Bonds with an earlier Final Maturity Date and no principal payments on any tranche of Bonds shall be made until interest due on all Bonds on such Payment Date is paid in full. No principal payment shall be made on any Series 2013TE-1 through Series 2013TE-7 Bonds prior to the Scheduled Maturity Date for such Bonds. Notwithstanding the foregoing, if an Event of Default under the Indenture should occur and be continuing, the unpaid principal amount of all Bonds and the accrued interest thereon may be declared immediately due and payable (see “THE INDENTURE—Events of Default” and “THE INDENTURE—Remedies—Acceleration”). In addition, the Series 2013TE Bonds subject to optional redemption may be optionally redeemed (see “—Redemption—Optional Redemption” below).

Partial payments of any scheduled payments will be allocated within Bonds of a particular tranche pro rata. Partial payments of any scheduled payments will be allocated between tranches of Bonds with the same Final Maturity Date on a pro rata basis.

The entire unpaid principal balance of each tranche of the Bonds of a Series will be due and payable on the Final Maturity Date for the tranche. It shall not constitute an Event of Default if Bonds are not paid earlier in accordance with the Expected Amortization Schedule (so long as all available amounts held under the Indenture are applied in accordance with its provisions).

The Trustee will make each payment other than the final payment with respect to any Bonds to the holders of record of the Bonds of the applicable tranche on the Record Date for that Payment Date. The Trustee will make the final payment for each tranche of Bonds, however, only upon presentation and surrender of the Bonds of that tranche at the office or agency of the Trustee specified in the notice given by the Trustee of the final payment. The Trustee will mail notice of the final payment to the Bondholders no later than five days prior to the final Payment Date, specifying the date set for the final payment and the amount of the payment.

The Expected Amortization Schedules are set forth below for each tranche of the Bonds.

**Expected Amortization Schedules**

**Series 2013T Bonds Expected Amortization Schedule\***

<b>Payment Date<sup>†</sup></b>	<b>Tranche T-1 Balance**</b>	<b>Tranche T-2 Balance**</b>	<b>Tranche T-3 Balance**</b>	<b>Tranche T-4 Balance**</b>
Initial Principal Balance	\$100,000,000	\$100,000,000	\$100,000,000	\$182,934,000
June 15, 2017	\$6,540,000	\$0	\$0	\$0
December 15, 2017	\$6,608,000	\$0	\$0	\$0
June 15, 2018	\$23,097,000	\$0	\$0	\$0
December 15, 2018	\$23,336,000	\$0	\$0	\$0
June 15, 2019	\$40,419,000	\$24,598,000	\$0	\$0
December 15, 2019	\$0	\$65,744,000	\$0	\$0
June 15, 2020	\$0	\$9,658,000	\$43,163,000	\$0
December 15, 2020	\$0	\$0	\$53,571,000	\$0
June 15, 2021	\$0	\$0	\$3,266,000	\$32,212,000
December 15, 2021	\$0	\$0	\$0	\$36,081,000
June 15, 2022	\$0	\$0	\$0	\$20,811,000
December 15, 2022	\$0	\$0	\$0	\$21,170,000
June 15, 2023	\$0	\$0	\$0	\$36,335,000
December 15, 2023	\$0	\$0	\$0	\$36,325,000

\* For the Scheduled Maturity Dates and Final Maturity Dates of the Series 2013T Bonds, see the inside cover of this Official Statement.

\*\* Subject to Sinking Fund Payments. See “—Redemption-Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules” below

† If such date is not a Business Day, the next Business Day without additional interest

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### Series 2013TE Bonds Expected Amortization Schedule

Tranche	Initial Principal Amount	Scheduled Maturity Date <sup>†</sup>	Final Maturity Date <sup>†</sup>
Series TE-1	\$90,000,000	December 15, 2014	December 15, 2016
Series TE-2	\$15,000,000	December 15, 2015	December 15, 2017
Series TE-3	\$30,000,000	June 15, 2016	June 15, 2018
Series TE-4	\$30,000,000	December 15, 2016	December 15, 2018
Series TE-5	\$680,000	December 15, 2023	December 15, 2025
Series TE-6	\$14,595,000	June 15, 2024	June 15, 2026
Series TE-7	\$14,960,000	December 15, 2024	December 15, 2026
Series TE-8*	\$25,130,000	December 15, 2025	December 15, 2027
Series TE-9*	\$77,740,000	December 15, 2026	December 15, 2028
Series TE-10*	\$190,640,000	December 15, 2027	December 15, 2029
Series TE-11*	\$178,425,000	December 15, 2028	December 15, 2030
Series TE-12*	\$186,045,000	December 15, 2029	December 15, 2031
Series TE-13*	\$73,015,000	December 15, 2030	December 15, 2032
Series TE-14*	\$55,130,000	December 15, 2031	December 15, 2033
Series TE-16*	\$45,130,000	December 15, 2032	December 15, 2034
Series TE-16*	\$44,370,000	December 15, 2033	December 15, 2035
Series TE-17*	\$468,530,000	December 15, 2039	December 15, 2041

\* Subject to Sinking Fund Payments. See “—Redemption-Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules” below.

<sup>†</sup> If such date is not a Business Day, the next Business Day without additional interest.

#### Weighted Average Life and Maturity Sensitivity

Weighted average life refers to the average amount of time from the date of issuance of a security until each dollar of principal of the security has been repaid to the investor. The rate of principal payments on each tranche of the Bonds, the aggregate amount of each interest payment on each tranche of the Bonds and the actual final Payment Date of each tranche of the Bonds will depend on the timing of the Servicer’s receipt of Restructuring Charges from Customers. Changes in the expected actual final payment or weighted average lives of the tranches of the Bonds, as applicable, in relation to variances in actual energy consumption levels (retail electricity delivery service sales) from forecast levels are shown below.

### Maturity Sensitivity – Series 2013TE Bonds

Tranche	Scheduled Maturity Date	Forecast Error of 5%		Forecast Error of 15%	
		Actual Final Payment	Change (days)*	Actual Final Payment	Change (days)*
Series TE-1	December 15, 2014	December 15, 2014	0	June 15, 2015	182
Series TE-2	December 15, 2015	December 15, 2015	0	December 15, 2015	0
Series TE-3	June 15, 2016	June 15, 2016	0	June 15, 2016	0
Series TE-4	December 15, 2016	December 15, 2016	0	December 15, 2016	0
Series TE-5	December 15, 2023	December 15, 2023	0	December 15, 2023	0
Series TE-6	June 15, 2024	June 15, 2024	0	June 15, 2024	0
Series TE-7	December 15, 2024	December 15, 2024	0	December 15, 2024	0
Series TE-8**	December 15, 2025	December 15, 2025	0	December 15, 2025	0
Series TE-9**	December 15, 2026	December 15, 2026	0	December 15, 2026	0
Series TE-10**	December 15, 2027	December 15, 2027	0	December 15, 2027	0
Series TE-11**	December 15, 2028	December 15, 2028	0	December 15, 2028	0
Series TE-12**	December 15, 2029	December 15, 2029	0	December 15, 2029	0
Series TE-13**	December 15, 2030	December 15, 2030	0	December 15, 2030	0
Series TE-14**	December 15, 2031	December 15, 2031	0	December 15, 2031	0
Series TE-15**	December 15, 2032	December 15, 2032	0	December 15, 2032	0
Series TE-16**	December 15, 2033	December 15, 2033	0	December 15, 2033	0
Series TE-17**	December 15, 2039	December 15, 2039	0	December 15, 2039	0

\* Number is rounded to whole days.

\*\* Subject to Sinking Fund Payments. See “—Redemption—Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules.”

### Weighted Average Life Sensitivity – Series 2013T Bonds

Tranche	Expected Weighted Average Life (WAL) (yrs)	Forecast Error of 5%		Forecast Error of 15%	
		WAL (yrs)	Change (days)*	WAL (yrs)	Change (days)*
Series T-1	4.91	4.91	0	4.91	0
Series T-2	5.92	5.92	0	5.92	0
Series T-3	6.79	6.79	0	6.79	0
Series T-4	8.77	8.77	0	8.77	0

\* Number is rounded to whole days.

*Assumptions.* For the purposes of preparing the charts above, the following assumptions, among others, have been made: (i) the forecast error stays constant over the life of the Bonds and is equal to an overestimate of electricity consumption of 5% (1.59 standard deviations from the mean) or 15% (5.18 standard deviations from the mean) as stated in the chart above, (ii) the Servicer makes timely and accurate filings to true-up the Restructuring Charge semi-annually through the Scheduled Maturity Date, (iii) Customers remit all Restructuring Charges 39 days after such charges are billed, (iv) Customer charge-off rates are held constant at 0.70%, (v) operating expenses are equal to projections, (vi) there is no acceleration of the Final Maturity Date of the Bonds, (vii) none of the Series 2013TE Bonds that are subject to optional redemption prior to maturity are optionally redeemed, and (viii) the closing date is December 18, 2013. There can be no assurance that the weighted average lives of the Bonds will be as shown.

The rate of principal payments, the amount of each interest payment and the actual final Payment Date of each tranche of the Bonds and the weighted average life thereof will depend primarily on the timing of receipt of collected Restructuring Charges by the Trustee as adjusted by the True-Up Adjustment mechanism. The aggregate amount of collected Restructuring Charges and the rate of principal amortization on the Bonds will depend, in part, on actual energy usage and the rate of delinquencies and write-offs. The Restructuring Charges are required to be adjusted from time to time based in part on the actual rate of collected Restructuring Charges. However, there is no assurance that the Servicer or its subcontractor will be able to forecast accurately actual electricity usage and the rate

of delinquencies and write-offs or implement adjustments to the Restructuring Charges that will cause collected Restructuring Charges to be received at any particular rate. See “RISK FACTORS—Servicing and Operating Risks” and “THE FINANCING ORDER—True-Up Adjustment Mechanism.”

The Bonds may be retired later than expected. Except in the event of an acceleration of the Final Maturity Date of the Bonds after an Event of Default, however, the Bonds will not be paid at a rate faster than that contemplated in the Expected Amortization Schedule for each tranche of the Bonds even if the receipt of collected Restructuring Charges is accelerated. Instead, receipts in excess of the amounts necessary to amortize the Bonds in accordance with the applicable Expected Amortization Schedules, to pay interest and redemption price, if any, and all other Ongoing Financing Costs and any other related fees and expenses and to fund deficiencies in the Reserve Subaccount will be allocated to the Excess Funds Subaccount. Amounts on deposit in the Excess Funds Subaccount will be taken into consideration in calculating the next True-Up Adjustment. Acceleration of the Final Maturity Date after an Event of Default in accordance with the terms thereof will result in payment of principal earlier than the related Scheduled Maturity Dates. A payment on a date that is earlier than forecast might result in a shorter weighted average life, and a payment on a date that is later than forecast might result in a longer weighted average life. In addition, if a larger portion of the delayed payments on the Bonds is received in later years, the Bonds may have a longer weighted average life.

### **Fees and Expenses**

As set forth in the table below, the following annual fees and expenses will be payable from Charge Collections and Investment Earnings before debt service payments are made on the Bonds.

<b><u>Recipient</u></b>	<b><u>Fees and Expenses Payable</u></b>
Trustee	Trustee fees, indemnity payments (to the extent not in excess of \$800,000 in each calendar year) and expense reimbursements
Servicer	Servicing Fees not in excess of (i) 0.05% of the aggregate initial principal amount of the Bonds (plus reimbursement for costs and expenses incurred in carrying out its obligations under the Servicing Agreement) or (ii) 0.60% for a Successor Servicer not affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets
Administrator	\$100,000 annually
Issuer	Indemnity payments and expense reimbursements

That portion of the annual Servicing Fee payable to any Servicer not affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets in excess of 0.60% of the aggregate initial principal amount of the Bonds shall be paid after debt service payments are made on the Bonds. Indemnity amounts due to the Trustee in excess of \$800,000 in each calendar year shall also be paid after debt service payments are made on the Bonds.

### **Redemption**

*Optional Redemption.* The Series 2013T Bonds are not subject to redemption prior to maturity at the option of the Issuer.

The Series 2013TE Bonds with a Final Maturity Date prior to December 15, 2025 are not subject to optional redemption prior to maturity at the option of the Issuer. The Series 2013TE Bonds with a Final Maturity Date on or after December 15, 2025 are subject to redemption at the option of the Issuer in whole or in part, in any order, from time to time on any Business Day on and after December 15, 2023, upon payment of the redemption price of 100% of the principal amount of the Series 2013TE Bonds to be redeemed, together with accrued interest to the redemption date, at par, plus accrued interest to the redemption date.

*Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules.* The Term Bonds under the Indenture shall be subject to redemption, on and after the applicable dates set forth below from Sinking Fund Payments, at a redemption price of 100% of the principal amount of the applicable Term Bonds to be redeemed, together with accrued interest to the redemption date. On each Scheduled Sinking Fund Redemption Date, the

applicable Term Bonds shall be redeemed, from and to the extent of funds available for such purpose, until the Outstanding Amount of such Term Bonds has been reduced to an amount equal to the amount shown below as the Minimum Remaining Outstanding Amount for such date. Any amounts paid on the Term Bonds on the Final Maturity Date shall be applied as a payment of a maturity of such Term Bonds and not as a redemption. The Expected Sinking Fund Schedules below set forth the Scheduled Sinking Fund Redemption Dates, the scheduled Outstanding Amount as of each such date, the scheduled Sinking Fund Payment for each such date and the minimum remaining Outstanding Amount as of such date for each Term Bond.

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013T-1</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2017	\$100,000,000	\$6,540,000	\$93,460,000
December 15, 2017	\$93,460,000	\$6,608,000	\$86,852,000
June 15, 2018	\$86,852,000	\$23,097,000	\$63,755,000
December 15, 2018	\$63,755,000	\$23,336,000	\$40,419,000
June 15, 2019	\$40,419,000	\$40,419,000	0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013T-2</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2019	\$100,000,000	\$24,598,000	\$75,402,000
December 15, 2019	\$75,402,000	\$65,744,000	\$9,658,000
June 15, 2020	\$9,658,000	\$9,658,000	0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013T-3</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2020	\$100,000,000	\$43,163,000	\$56,837,000
December 15, 2020	\$56,837,000	\$53,571,000	\$3,266,000
June 15, 2021	\$3,266,000	\$3,266,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013T-4</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2021	\$182,934,000	\$32,212,000	\$150,722,000
December 15, 2021	\$150,722,000	\$36,081,000	\$114,641,000
June 15, 2022	\$114,641,000	\$20,811,000	\$93,830,000
December 15, 2022	\$93,830,000	\$21,170,000	\$72,660,000
June 15, 2023	\$72,660,000	\$36,335,000	\$36,325,000
December 15, 2023	\$36,325,000	\$36,325,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-8</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2025	\$25,130,000	\$12,410,000	\$12,720,000
December 15, 2025	\$12,720,000	\$12,720,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-9</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2026	\$77,740,000	\$38,390,000	\$39,350,000
December 15, 2026	\$39,350,000	\$39,350,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-10</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2027	\$190,640,000	\$94,145,000	\$96,495,000
December 15, 2027	\$96,495,000	\$96,495,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-11</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2028	\$178,425,000	\$88,110,000	\$90,315,000
December 15, 2028	\$90,315,000	\$90,315,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-12</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2029	\$186,045,000	\$91,875,000	\$94,170,000
December 15, 2029	\$94,170,000	\$94,170,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-13</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2030	\$73,015,000	\$36,055,000	\$36,960,000
December 15, 2030	\$36,960,000	\$36,960,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-14</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2031	\$55,130,000	\$27,225,000	\$27,905,000
December 15, 2031	\$27,905,000	\$27,905,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-15</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2032	\$45,130,000	\$22,285,000	\$22,845,000
December 15, 2032	\$22,845,000	\$22,845,000	\$0

<b>EXPECTED SINKING FUND SCHEDULE – SERIES 2013TE-16</b>			
<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2033	\$44,370,000	\$21,910,000	\$22,460,000
December 15, 2033	\$22,460,000	\$22,460,000	\$0



**EXPECTED SINKING FUND  
SCHEDULE – SERIES 2013TE-17**

<b>Scheduled Sinking Fund Redemption Date</b>	<b>Scheduled Outstanding Amount</b>	<b>Scheduled Sinking Fund Payment</b>	<b>Minimum Remaining Outstanding Amount</b>
June 15, 2034	\$468,530,000	\$2,700,000	\$465,830,000
December 15, 2034	\$465,830,000	\$2,770,000	\$463,060,000
June 15, 2035	\$463,060,000	\$435,000	\$462,625,000
December 15, 2035	\$462,625,000	\$445,000	\$462,180,000
June 15, 2036	\$462,180,000	\$46,375,000	\$415,805,000
December 15, 2036	\$415,805,000	\$47,535,000	\$368,270,000
June 15, 2037	\$368,270,000	\$50,880,000	\$317,390,000
December 15, 2037	\$317,390,000	\$52,150,000	\$265,240,000
June 15, 2038	\$265,240,000	\$51,195,000	\$214,045,000
December 15, 2038	\$214,045,000	\$52,475,000	\$161,570,000
June 15, 2039	\$161,570,000	\$74,795,000	\$86,775,000
December 15, 2039	\$86,775,000	\$86,775,000	\$0

Notwithstanding the foregoing, if an Event of Default under the Indenture shall have occurred and be continuing, the unpaid principal amount of all Bonds and accrued interest thereon may be declared due and payable (see “THE INDENTURE—Events of Default” and “THE INDENTURE—Remedies—Acceleration”). In addition, the Series 2013TE Bonds subject to optional redemption may be optionally redeemed (see “—Redemption—Optional Redemption” above).

*Selection of Bonds for Redemption.* If less than all of the Bonds of a tranche are to be redeemed, DTC and the direct participant and, where appropriate, indirect participants will determine the particular eligible Bonds of a tranche to be redeemed in accordance with their procedures as from time to time in effect. If the Bonds are not registered in book-entry only form, the particular Bonds of a tranche to be redeemed will be determined by the Trustee, using such method as it deems fair and appropriate. See “Book-Entry-Only System” in Schedule 1 to this Official Statement.

*Notice of Redemption.* If any of the Bonds are to be redeemed, notice of such redemption is to be mailed by the Trustee to Holders of such Bonds to be redeemed not less than 30 days preceding each redemption date. Any notice of optional redemption may provide that such redemption is conditioned on, among other things, the availability of sufficient moneys on the redemption date.

The Trustee, so long as a book-entry-only system is used for determining ownership of the Bonds, shall send the notice to DTC or its nominee, or its successor. Any failure of DTC or a direct participant or, where appropriate, indirect participants to do so, or to notify a Beneficial Owner of a Bond of such redemption, will not affect the sufficiency or the validity of the redemption of such Bond. The Issuer can make no assurances that DTC, direct participants, indirect participants or other nominees of the Beneficial Owners of the Bonds to be redeemed will distribute such notices to the Beneficial Owners of such Bonds, or that they will do so on a timely basis. See “Book-Entry-Only System” in Schedule 1 to this Official Statement.

### **Registration and Transfer of Bonds**

Bonds in definitive form will be transferable and exchangeable at the office of the registrar identified in this Official Statement. The Trustee will be the initial registrar. There will be no service charge for any registration or transfer of the Bonds, but the Trustee may require the owner to pay a sum sufficient to cover any tax or other governmental charge.

The Issuer will issue each tranche of the Bonds in the minimum initial denominations set forth in this Official Statement.

### **Securities Depository**

The Bonds will be available to investors only in book-entry form. DTC will act as securities depository for the Bonds. Bondholders may hold the Bonds through DTC in the United States, and may hold the Bonds through Clearstream, or Euroclear in Europe or in any other manner described in this Official Statement. See Schedule 1 to this Official Statement for a description of DTC and its book-entry-only system that will apply to the Bonds, as well as information relating to Clearstream and Euroclear.

As long as the book-entry system is used for the Bonds, as to Bonds held through DTC, the Trustee and the Issuer will give any notice required to be given owners of Bonds only to DTC. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS FOR THE DIRECT PARTICIPANT THROUGH WHOSE DTC ACCOUNT THEIR BENEFICIAL OWNERSHIP INTEREST IS RECORDED TO RECEIVE NOTICES THAT MAY BE CONVEYED TO DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS.

### **Access of Bondholders**

Upon written request of any Bondholder or group of Bondholders, each of whom has held its Bond for at least six months, the Trustee will afford the Bondholder or Bondholders making such request a copy of a current list of Bondholders for purposes of communicating with other Bondholders with respect to their rights under the Indenture unless the Trustee agrees to mail the desired communication, on behalf of and at the expense of the requesting Bondholders, to all Bondholders.

### **SECURITY FOR THE BONDS**

The Bonds issued under the Indenture will be non-recourse obligations and are payable solely from and secured solely by a pledge of and lien on the Restructuring Property and the other Collateral as provided in the Indenture. If and to the extent the Restructuring Property and the other Collateral are insufficient to pay all amounts owing with respect to the Bonds, then the Bondholders will have no claim in respect of such insufficiency against the Issuer, the Authority, LIPA or any other person. By the acceptance of the Bonds, the Bondholders waive any such claim.

The Bonds of each Series are secured by the Collateral on a pari passu basis under the Indenture.

### **Pledge of Collateral**

To secure the payment of principal of and interest on the Bonds, the Issuer will pledge to the Trustee all of its right, title and interest (whether owned on the Issuance Date or thereafter acquired or arising) in and to the following:

- the Restructuring Property transferred by the Seller to the Issuer pursuant to the Sale Agreement and all proceeds thereof, including the Restructuring Charges as estimated, determined and adjusted from time to time pursuant to the Servicing Agreement in accordance with the Financing Order,
- the statutory lien pursuant to the Securitization Law,
- the Sale Agreement,
- the Servicing Agreement,
- the Administration Agreement,
- the Collection Account, all subaccounts thereof (except for the Upfront Financing Costs Subaccount) and all amounts or investment property on deposit therein or credited thereto from time to time,
- the security interest with respect to the Restructuring Property granted by the Seller to the Issuer in the Sale Agreement,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion thereof, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, deposit accounts, securities accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing, and
- all proceeds in respect of any or all of the foregoing.

The foregoing assets in which the Issuer, as assignee of the Seller, will grant the Trustee a security interest are referred to herein as the “Collateral.” See “—How Funds in the Collection Account Will Be Allocated.”

The Collateral does not include:

- any amounts required to be released pursuant to or contemplated by the terms of the Indenture, and
- proceeds from the sale of the Bonds required to pay the purchase price of the Restructuring Property pursuant to the Sale Agreement and the Upfront Financing Costs related to the Bonds as deposited into the Upfront Financing Costs Subaccount (together with any interest earnings thereon).

### **Security Interest in Collateral**

As provided in the Securitization Law, a valid and enforceable lien and security interest in Restructuring Property will attach and be perfected at the time the pledge is made. The lien and security interest attach without any physical delivery of Collateral or other act. The lien and security interest will be valid, binding, and perfected against all parties having claims of any kind in tort, contract or otherwise against the Seller, regardless of whether the parties have notice of the lien and will be superior to any judicial lien or other lien obtained by such parties. The Securitization Law provides that the pledge is continuously perfected and has priority over any other lien created by the operation of law or otherwise that may be created subsequently. Any pledge of the Restructuring Property will have a perfected security interest in the revenues and proceeds of the Restructuring Property that are deposited in an account even if those revenues or proceeds are commingled with other funds. The Securitization Law also provides that any other security interest that may apply to the revenues or proceeds of the Restructuring Property will be terminated when such funds are transferred to a segregated account for the benefit of the Trustee or the Bondholders. Similarly, the Financing Order provides that the Restructuring Property may be pledged to secure the payment of the Bonds, all other Ongoing Financing Costs, and other amounts owed pursuant to the transaction documents.

Certain items of the Collateral may not constitute Restructuring Property and the perfection of the Trustee's security interest in those items of Collateral would therefore be subject to the Uniform Commercial Code or common law and not the Securitization Law. These items consist of the Issuer's rights in:

- the Sale Agreement, the Servicing Agreement, the Administration Agreement and any other Basic Documents,
- the Reserve Subaccount or any other funds on deposit in the Collection Account which do not constitute Restructuring Charge collections together with all instruments, investment property or other assets on deposit therein or credited thereto and all financial assets and securities entitlements carried therein or credited thereto which do not constitute Charge Collections,
- all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters-of-credit, letter-of-credit rights, money, commercial tort claims and supporting obligations and all of its other property to the extent not Restructuring Property, and
- proceeds of the foregoing items.

Additionally, any contractual rights the Issuer has against retail electric delivery customers (other than the irrevocable right to impose Restructuring Charges and rights otherwise included in the definition of Restructuring Property) would be collateral to which the UCC applies.

As a condition to the issuance of the Bonds, the Issuer must make all filings and take any other action required by the UCC or common law to perfect the lien of the Trustee in all the items included in Collateral which do not constitute Restructuring Property. The Issuer will also covenant to take all actions necessary to maintain or preserve the lien and security interest on a first priority basis. Under the Indenture, the Trustee is required to file any necessary UCC continuation statements. The Issuer will represent, along with the Seller, at the time of issuance of the Bonds, that no prior filing has been made with respect to that party under the terms of the UCC, other than a filing which provides the Trustee with a lien and first priority perfected security interest in the Collateral.

### **Lien on Restructuring Property**

Pursuant to the Indenture, the Issuer will pledge to the Trustee all of the Issuer's right, title and interest in and to the Restructuring Property. Pursuant to the Securitization Law, this pledge will constitute a first priority statutory lien on the Restructuring Property.

Under the Financing Agreement (described below), LIPA previously transferred to the Authority all of its right, title and interest in and to its revenues to provide security for the Authority's indebtedness. Pursuant to the Authority's General Resolution and the Authority's Electric System General Subordinated Revenue Bond Resolution adopted on May 20, 1998 (the "Subordinated General Resolution"), the Authority issues secured bonds

and other obligations (including swap or other interest rate hedging obligations) that are secured by a lien upon substantially all of the revenues of the Authority. The revenues that are subject to the lien of the Authority's General Resolution and Subordinated General Resolution include, among other things, revenues, rates, fees, charges, and other income and receipts from the operations of any subsidiary of the Authority (including LIPA). The Authority's General Resolution specifically excludes from the revenues that are subject to the lien, amounts constituting "Transition Charges." "Transition Charges," under the General Resolution, are defined as any rates, fees, charges or surcharges relating to the Authority's transmission and distribution system or its customers that are established by an irrevocable rate order or other action in connection with the issuance of debt or other securities other than under the Authority's General Resolution to the extent that those rates, fees, charges or surcharges are pledged as security for such debt or other securities. The Subordinated General Resolution imposes a lien on the same revenues as the General Resolution. The Financing Order contains a conclusion of law that the Restructuring Charges are "transition charges" as defined in the General Resolution and that they are not subject to the lien thereof. In addition, the Authority will make a representation in the Sale Agreement to the effect that it is transferring the Restructuring Property free of any Liens. Hawkins Delafield & Wood LLP expects to render an opinion in connection with the issuance of the Bonds to the effect that the Restructuring Charges are not subject to the lien of the General Resolution or the Subordinated General Resolution.

### **Indenture Accounts**

Prior to the Issuance Date, the Issuer will open or cause to be opened, at the Trustee's office located at the Corporate Trust Office, or at another Eligible Institution, the Collection Account, which shall be one or more segregated trust accounts in the Trustee's name for the deposit of Charge Collections and all other amounts received with respect to the Collateral or under the Servicing Agreement. The Collection Account will consist of four Subaccounts: the General Subaccount, the Excess Funds Subaccount, the Reserve Subaccount, and the Upfront Financing Costs Subaccount. Unless the context indicates otherwise, a reference in this Official Statement to the Collection Account means the Subaccounts contained therein. For administrative purposes, the Subaccounts may be established by the Trustee as separate accounts.

The Servicer will remit Restructuring Charge payments to the Collection Account in the manner described under "THE BONDS—How Funds in the Collection Account Will Be Allocated."

*Collection Account.* Prior to the initial Payment Date, all amounts in the Collection Account (other than funds deposited into the Reserve Subaccount up to the Required Reserve Level and the Upfront Financing Costs Subaccount up to the amount initially deposited therein) shall be allocated to the General Subaccount.

*General Subaccount.* The General Subaccount will hold all funds held in the Collection Account that are not held in the other three subaccounts. The Allocation Agent will transfer to the General Subaccount, on each Business Day, and to the extent that funds are available in the Allocation Account, the estimated amount of Charge Collections and the Remittance Shortfall from the Allocation Account. On each Payment Date, the Trustee will draw on amounts in the General Subaccount to pay the Issuer's expenses and to pay interest and make scheduled payments on the Bonds, and to make other payments and transfers in accordance with the terms of the Indenture.

*Excess Funds Subaccount.* The Trustee, at the direction of the Servicer, will allocate to the Excess Funds Subaccount Charge Collections available with respect to any Payment Date in excess of amounts necessary to make the payments specified on such Payment Date. The Excess Funds Subaccount will also hold all Investment Earnings on the Collection Account in excess of such amounts.

*Reserve Subaccount.* In connection with the issuance of the Bonds, the Issuer will deliver to the Trustee for deposit into the Reserve Subaccount an amount from the Bond proceeds equal to the Required Reserve Level, which will be an amount equal to 0.50% of the initial aggregate principal amount of the Bonds.

*Upfront Financing Costs Subaccount.* The Upfront Financing Costs Subaccount is to be funded by the proceeds of the Bonds in the amount expected to be used for Upfront Financing Costs as provided in the Issuance Advice Letter. Any amounts in the Upfront Financing Costs Subaccount not required to pay Upfront Financing Costs may be used to pay Ongoing Financing Costs.

The Trustee shall have sole dominion and exclusive control over all money in the Collection Account and shall apply such money as provided in the Indenture. Each account shall remain at all times with a securities intermediary (within the meaning of Section 8-102(a)(14) of the UCC).

Withdrawals from and deposits to each of the foregoing Subaccounts of the Collection Account shall be made as set forth in “—How Funds in the Collection Account Will Be Allocated.”

The Collection Account shall at all times be maintained in an Eligible Account and only the Trustee shall have access to the Collection Account for the purpose of making deposits in and withdrawals from the Collection Account in accordance with the Indenture. Funds in the Collection Account shall not be commingled with any other moneys. Funds in the Collection Account may be invested only in “Eligible Investments” that mature or are redeemable at the option of the holder on or prior to the Business Day next preceding the next Payment Date. The Indenture prohibits Eligible Investments credited to the Collection Account from being sold, liquidated or otherwise disposed of at a loss prior to the maturity or redemption date thereof.

Except as provided in the Indenture as described under “General Provisions Regarding the Collection Account,” all money deposited from time to time in the Collection Account, all deposits therein pursuant to the Indenture, and all investments made in Eligible Investments with such money, including all income or other gain from such investments, shall be held by the Trustee in the Collection Account as part of the Collateral (except for amounts in the Upfront Financing Costs Subaccount). The Trustee shall have no liability in respect of losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or its date of redemption or the failure of the Issuer to provide timely written investment direction. All amounts in the Collection Account (except for amounts in the Upfront Financing Costs Subaccount) must be used, to the extent practical, to make the final payments of principal and interest on the Bonds and Ongoing Financing Costs or to make refunds to Customers to the same extent such Customers would have been required to pay Restructuring Charges. When no Bonds remain Outstanding and all Ongoing Financing Costs (including any rebate or other amounts payable to the United States of America under Section 148 of the Code) have been paid, or their payment provided for, in full, then the balance, if any, in the Collection Account (including all subaccounts therein) shall be deposited in the Reserve Subaccount and paid to or at the direction of the Issuer and applied to customer refunds in accordance with the Financing Order. In the event the Issuer issues additional Bonds as permitted by the Indenture and as described below under “—Additional Bonds” to refund any Bonds, amounts may be withdrawn from the Reserve Subaccount to pay the Bonds to be refunded; provided, however, that immediately after such withdrawal, an amount at least equal in the aggregate to the Required Reserve Level then applicable to the remaining Bonds must remain on deposit in the Reserve Subaccount. The Securitization Law does not authorize the issuance of any bonds by the Issuer other than the Restructuring Bonds.

#### **How Funds in the Collection Account Will Be Allocated**

On each Payment Date, or for any amount payable under clauses (i) through (iv) below, on any Business Day upon which the Trustee receives a written request from the Administrator stating that any of such Operating Expenses payable by the Issuer will become due and payable prior to the next succeeding Payment Date, the Trustee shall pay or allocate, at the direction of the Servicer, all amounts on deposit in the Collection Account (including all earnings thereon) to pay the following amounts in the following priority:

(i) all fees, costs, expenses (including legal fees and expenses) and, to the extent not in excess of \$800,000 in each calendar year, indemnity amounts owed by the Issuer to the Trustee under the applicable Basic Documents shall be paid to the Trustee,

(ii) the Servicing Fee for such Payment Date and all unpaid Servicing Fees from prior Payment Dates, to the extent of Servicing Fees not in excess of 0.60% of the aggregate initial principal amount of the Bonds in each calendar year, shall be paid to the Servicer,

(iii) the Administration Fee and all unpaid Administration Fees from prior Payment Dates shall be paid to the Administrator,

(iv) the payment of all other Ongoing Financing Costs (other than as provided in clauses (viii) and (ix) below) for such Payment Date shall be paid to the Persons entitled to such payment,

(v) (A) first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable Bond Interest Rate) and (B) second, interest for such Payment Date shall be paid to the Holders,

(vi) principal due and payable on the Bonds as a result of an Event of Default (assuming the Bonds have been declared immediately due and payable) or on the Final Maturity Date of a tranche of the Bonds shall be paid to the Holders,

(vii) principal for such Payment Date will be paid to Holders in accordance with the priorities described in “THE BONDS—Principal of the Bonds” above.

(viii) indemnity amounts owed by the Issuer to the Trustee to the extent in excess of \$800,000 in each calendar year, shall be paid to the Trustee and premiums for directors’ and officers’ liability insurance for trustees and officers of the Issuer shall be paid to the provider of such insurance, or, if such premium is paid by the Administrator pursuant to the Administration Agreement, the amount of such premium shall be paid to the Administrator in reimbursement thereof,

(ix) the Servicing Fee for such Payment Date, and all unpaid Servicing Fees from prior Payment Dates, to the extent of Servicing Fees in excess of 0.60% of the aggregate initial principal amount of the Bonds in each calendar year, shall be paid to the Servicer,

(x) the amount, if any, by which the Required Reserve Level exceeds the amount in the Reserve Subaccount as of such Payment Date will be paid or allocated to the Reserve Subaccount, and

(xi) the balance, if any, will be paid or allocated to the Excess Funds Subaccount for distribution on subsequent Payment Dates.

If on any Payment Date, or for any amounts payable under clauses (i) through (iv) above, on any Business Day, funds on deposit in the General Subaccount are insufficient to make the payments contemplated in clauses (i) through (ix) above, the Trustee shall (i) first, draw from amounts on deposit in the Excess Funds Subaccount and (ii) second, draw from amounts on deposit in the Reserve Subaccount, in each case, up to the amount of such shortfall in order to make the payments contemplated by clauses (i) through (ix) above. In addition, if on any Payment Date funds on deposit in the General Subaccount are insufficient to make the allocations contemplated by clause (x) above, the Trustee shall draw from amounts on deposit in the Excess Funds Subaccount to make such allocations. If on any Payment Date funds on deposit in the Collection Account (other than amounts in the Upfront Financing Costs Subaccount) are insufficient to make the transfers contemplated by clause (v), (vi) or (vii) above, the Trustee will allocate the funds drawn pursuant to the first sentence of this paragraph among the tranches pro rata as provided above.

#### **Limited Obligation of Issuer**

**The Bonds are not an obligation of the Authority, LIPA or any Successor Servicer. The Bonds are not a debt, general obligation or a pledge of the faith and credit or taxing power of the State of New York or of any county, municipality or any other subdivision, agency or instrumentality of the State of New York. The Bonds are limited obligations of the Issuer payable solely from the Collateral including the Restructuring Charges. The issuance of the Bonds does not obligate the State of New York or any county, municipality or other political subdivision, agency or instrumentality of the State of New York to levy any tax or make any appropriation for the payments of the Bonds. The Issuer has no taxing power.**

#### **Legality for Investment**

With respect to the Bonds, the Securitization Law provides that the Bonds are securities in which all public officers and bodies of the State and all municipalities, all insurance companies and associations, banks, trust companies, savings banks and savings associations, investment companies and other persons carrying on a banking business, all trusts, estates and guardianships and all other persons who are authorized to invest obligations of the State, may properly and legally invest. The Bonds are also securities which may be deposited with public officers and bodies of the State and all municipalities for any purpose for which such obligations of the State are authorized.

#### **Additional Bonds**

The Securitization Law does not authorize the issuance of any bonds by the Issuer other than the Restructuring Bonds. However, in the event that the Legislature amends the Securitization Law or enacts a new statute authorizing the issuance of additional restructuring bonds by the Issuer, the Indenture provides that the Issuer may issue additional bonds, notes or other obligations, for any purpose and secured as provided by the laws of the State, other than by the Collateral, provided that the Rating Agency Condition has been satisfied.

## THE ISSUER

### Introduction

The Issuer is a special purpose corporate municipal instrumentality of the State of New York created by subdivision 1 Section 4 of the Securitization Law and further described in the Financing Order. The Securitization Law restricts the Issuer from engaging in activities other than those described in this section. The Issuer does not have any employees. As of the date of this Official Statement, the Issuer has not carried on any business activities and has no operation history.

The Issuer's assets will consist of:

- the Restructuring Property,
- its rights under the Sale Agreement, under the Administration Agreement and under the bill of sale delivered by the Authority pursuant to the Sale Agreement,
- its rights under the Servicing Agreement and any subservicing, agency, administration, intercreditor or collection agreements executed in connection with such Servicing Agreement,
- the Collection Account and all subaccounts of such Collection Account,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

The Indenture provides that the Restructuring Property will be pledged by the Issuer to the Trustee to secure its obligations in respect of the Bonds. Pursuant to the Indenture, the collected Restructuring Charges remitted to the Trustee by the Servicer must be used to pay principal and interest on the Bonds and other Ongoing Financing Costs and the Issuer's other obligations specified in the Indenture.

### Restricted Purpose

The Issuer is authorized only to:

- (i) issue the Restructuring Bonds and use the proceeds thereof to purchase or acquire, and to own, hold and use the Restructuring Property or to pay or fund Upfront Financing Costs provided, however, that the Issuer shall only issue and sell Restructuring Bonds once, and
- (ii) contract for the servicing of the Restructuring Property and Restructuring Bonds and for administrative services,
- (iii) pledge the Restructuring Property to secure the Restructuring Bonds and pay all Ongoing Financing Costs.

The Securitization Law does not permit the Issuer to engage in any activities not directly related to these purposes, including issuing securities (other than the Bonds), borrowing money or making loans to other persons.

Under the Securitization Law, the Issuer is expressly prohibited from filing a petition for relief under chapter 9 of the Bankruptcy Code, which, as discussed elsewhere in this Official Statement, is the only chapter of the Bankruptcy Code potentially available for the Issuer. With respect to the Issuer, its status as a municipality and the state law prohibition against its filing of a case under chapter 9 would result in the Issuer having no access to relief under the Bankruptcy Code. It would remain subject to applicable state law concerning debtors and creditors.

### Management and Fees

The Issuer's business will be managed by a board consisting of three trustees appointed by the Governor of the State of New York. The trustees may not be trustees, directors, officers or employees of the Authority, LIPA or any successor owner of the T&D System Assets. However, officers and employees of the Authority or LIPA may be officers or employees of the Issuer. The Issuer has appointed the current Chief Financial Officer and the General Counsel and Secretary of the Authority to the positions of Chief Financial Officer and Counsel and Secretary, respectively, with the Issuer.

The trustees will have staggered terms with one trustee serving for four years, one serving for five years and one serving for six years. All successor trustees shall serve for terms of six years. In the event of a vacancy, the Governor of the State of New York shall appoint a successor to serve the remainder of the unexpired term.

The trustees will not receive any salary or other compensation except for reimbursement for actual and necessary expenses incurred in the performance of official duties.

Under the Securitization Law, each trustee has a fiduciary duty to act in the best interest of the Issuer and the Governor may remove any trustee for inefficiency, neglect of duty or misconduct in office.

### **Relationship of the Issuer to the Authority and LIPA**

The Securitization Law requires the Issuer to keep its assets and liabilities separate and distinct from the Authority, LIPA, and any other entity.

### **Administration Agreement**

LIPA will, pursuant to an Administration Agreement between LIPA and the Issuer, provide administrative services to the Issuer, including services relating to the preparation of documents it might be required to file under applicable law. The Issuer will pay LIPA an annual administration fee of \$100,000 payable in semi-annual installments on each Payment Date. In addition to the Administration Fee, the Issuer will reimburse the Administrator for expenses it incurs in connection with services it performs under the Administration Agreement.

## **THE SELLER**

### **General**

The Authority will be the seller of the Restructuring Property, which the Issuer will pledge to secure the Bonds. The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York, exercising essential governmental and public powers. As such, the Authority should be found to constitute a “municipality” eligible for bankruptcy relief only under chapter 9 of the Bankruptcy Code. Among the requirements for a municipality to commence a case under chapter 9 is the requirement that it be specifically authorized by state law to be a debtor under chapter 9. The Authority is explicitly authorized to be a chapter 9 debtor pursuant to its enabling legislation. See “RISK FACTORS—Bankruptcy-Related Risks.”

### **Service Area**

*General.* The Authority took over as the retail supplier of electric service in the Service Area on May 28, 1998 by acquiring the Long Island Lighting Company (“LILCO”) as a wholly-owned subsidiary of the Authority through a merger (the “LIPA/LILCO Merger”). Since the LIPA/LILCO Merger, LILCO has done business under the name “LIPA.” The Authority, acting through LIPA, provides electric delivery service in the Service Area. For purposes of the Bonds and collection of the Restructuring Charges, the “Service Area” is defined by the Securitization Law as the service area of LIPA as of July 29, 2013.

As of December 31, 2012, the Service Area included approximately 1.1 million customers and experienced its peak usage of approximately 5,771 MW in the summer of 2011. In 2012, approximately 55 percent of annual electric revenues were received from residential customers, with 44 percent coming from commercial customers, and the balance from sales to other municipalities and public authorities. LIPA’s largest customer in 2012, The Long Island Rail Road, accounted for less than two percent of LIPA’s total sales and less than two percent of revenue.

*Service Area Demographics.* Long Island is a significant regional economy that benefits from its proximity to Manhattan, but also generates its own income, employment, and regional output. Long Island’s assets include a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy. Long Island also has a highly desirable suburban life style that attracts many individuals to live, work and vacation within the area.

The Long Island economy benefits from high average personal income and a service-based economy. According to data published by the U.S. Bureau of the Census and Bureau of Labor Statistics, the Long Island median household income is substantially above the national average. Thus, according to those reports, while the



cost of electricity in the Service Area is also higher than the national average, the cost of electricity as a percentage of income is below the national average.

The Long Island economy, however, has been and continues to be impacted by the national recession. According to New York State Department of Labor statistics, the unemployment rate was approximately 6.2 percent in August 2013 as compared to 7.5 percent in August 2012 and 7.1 percent in both December 2012 and December 2011. Overall, however, according to statistics compiled by the New York State Department of Labor, those rates compare favorably with those for the State and the entire country, which were, respectively, 8.7 and 8.6 percent in August 2013, 7.3 and 8.1 percent in August 2012, 8.2 and 7.6 percent in December 2012, and 8.0 and 8.3 percent in December 2011.

*Retail Choice.* Under current law, Customers may purchase energy from third party providers. In 1998, the Authority adopted a retail choice program (called “Long Island Choice”) which is intended to offer electric customers the opportunity to choose an electric energy supplier other than LIPA. The program is available to all customers in Service Area. As of September 30, 2013, other suppliers were selling electricity to 4,021 commercial and industrial customers in the Service Area representing a total load of 228 MW. A Customer must pay Restructuring Charges as long as such Customer is connected to the T&D System Assets and is taking electric delivery service in the Service Area, regardless of whether such Customer produces some of its own electricity or purchases electric generation services from a provider of electric generation services who is not the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA.

*Municipalization.* In addition, local governments may consider municipalization as a means to lower the cost of electric service. If municipalization were to occur, it would likely require condemnation of the T&D System Assets or construction of duplicate electric transmission and distribution facilities. Since the LIPA/LILCO merger in 1998, no municipalizations have occurred.

### **Relationship of the Authority to LIPA**

LIPA is a New York corporation and a wholly-owned subsidiary of the Authority. Pursuant to LIPA’s organizational documents, the Authority conducts and manages LIPA’s business and affairs. Accordingly, LIPA is controlled by the Authority. The Authority is governed by a Board of Trustees (the “Authority Trustees”). Pursuant to the LIPA Reform Act, on January 1, 2014, the number of Authority Trustees will be reduced from fifteen to nine. The LIPA Reform Act also requires that the Authority Trustees who will serve on the Board as of January 1, 2014 will be chosen and announced by the appointing authorities on or before December 1, 2013.

The Authority and LIPA are parties to the Financing Agreement providing for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area. Pursuant to the terms of that Financing Agreement, the Authority is to issue all debt necessary for the Authority and LIPA. This debt includes all bonds and subordinated indebtedness issued and to be issued. The proceeds of all such debt are to be treated as being loaned to LIPA, which is to repay such loans from the revenues it receives from its electric business. To secure the loans, LIPA has pledged all of its revenues to the Authority, which has, in turn, pledged such revenues as security for such debt. These revenues consist of charges imposed upon and being paid by the same Customers who will pay the Restructuring Charges. However, the Restructuring Charges are Transition Charges and, therefore, are not subject to the lien securing the Authority’s indebtedness. See “THE SELLER—Relationship Between the Bonds and the Authority’s Existing Indebtedness” below.

Pursuant to the terms of the Financing Agreement, LIPA conducts the electric business in the Service Area and is responsible for providing service to customers in the Service Area. The Authority and LIPA are also parties to an administrative services agreement pursuant to which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area.

### **System Operation by the Authority and LIPA**

In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority and LIPA have entered into operating agreements, the purpose of which is to provide the Authority and LIPA with the operating personnel and a significant portion of the power supply resources necessary for LIPA to continue to provide electric service in the Service Area. Since the LIPA/LILCO Merger, the service providers have generally been National Grid plc, the National Grid Subs and their predecessors, with some exceptions.

Since the LIPA/LILCO Merger, a National Grid Sub has been the T&D System manager pursuant to a Management Services Agreement (the “MSA”), which is expiring at the end of 2013. T&D System management

services include, among other functions, the day-to-day operation and maintenance of the T&D System, customer service, billing and collection, meter reading and forecasting. As described below under “—Transition to a New Business Model,” the Authority is currently in the process of transitioning to a new business model first adopted by the Authority Trustees in late 2011 and more recently modified in response to the requirements of the LIPA Reform Act, which will impact the Authority’s relationship with its service providers. Beginning on January 1, 2014, PSEG-LI will be the service provider pursuant to a ten-year Operations Services Agreement (the “Existing OSA”) or an amended version thereof expected to be executed in accordance with the LIPA Reform Act for a twelve-year term (the “Amended OSA”). Under the Existing OSA and the Amended OSA, the PSEG-LI management company is the contracting entity with LIPA.

### **Authority to Set Electric Rates**

Under the Securitization Law, the Restructuring Charges and any adjustments thereto are not subject to review or regulation by the New York State Department of Public Service (“DPS”), the staff arm of the New York State Public Service Commission (“PSC”).

The Authority is empowered under its enabling statute to set rates for electric service in the Service Area without obtaining the approval of the PSC, DPS or any other State regulatory body. Under the LIPA Reform Act, on or before February 1, 2015, the Authority and PSEG-LI are required to submit to the DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. The DPS is required to review and make recommendations about such proposal to the Authority Trustees. After the 2016-2018 period, the Authority and PSEG-LI are only required to submit a proposed rate increase for DPS review if it would increase aggregate revenues of the Authority by more than 2.5% on an annual basis. The Authority retains final rate-setting authority.

### **Where to Find Information about the Authority**

The Authority periodically files documents with the Electronic Municipal Market Access system (“EMMA”). In addition, for convenience, further information about the Authority can be found on the Authority’s website ([www.lipower.org](http://www.lipower.org)). No documents filed with EMMA or information on the Authority’s website is included by specific cross-reference herein.

### **Relationship between the Bonds and the Authority’s Existing Indebtedness**

The Authority’s existing secured indebtedness is secured by a lien on all of its revenues, rates, fees, charges, and other income and receipts from the operations of any of its subsidiaries; provided, however, that, among other things, “Transition Charges” are not subject to that lien. The Financing Order contains a conclusion of law that the Restructuring Charges are “Transition Charges” and that they are not subject to the lien of the General Resolution. In addition, the Authority will make a representation in the Sale Agreement to the effect that it is transferring the Restructuring Property free of any Liens. See “SECURITY FOR THE BONDS – Lien on Restructuring Property” in this Official Statement. Hawkins Delafield & Wood LLP expects to render an opinion in connection with the issuance of the Bonds to the effect that the Restructuring Charges are not subject to the lien of the General Resolution or the Subordinated General Resolution.

## **SERVICER AND ADMINISTRATOR**

### **General**

As described herein, LIPA is a wholly-owned subsidiary of the Authority, which owns and operates the electric transmission and distribution system located in the Service Area, and the Authority and LIPA have entered into operating agreements with third parties, which provide the Authority and LIPA with the operating personnel and resources necessary for LIPA to continue to provide electric service in the Service Area. LIPA is a New York corporation and is eligible to be the subject of a voluntary or involuntary petition in a liquidation case under chapter 7 of the Bankruptcy Code or a reorganization case under chapter 11 of the Bankruptcy Code.

### **Servicing the Bonds**

LIPA will, pursuant to a Servicing Agreement between LIPA and the Issuer, provide services to the Issuer in connection with the servicing of the Restructuring Property, Restructuring Charges, and the Bonds. The Issuer will pay LIPA, as Servicer, the Servicing Fee which shall be 0.05% of the aggregate initial principal amount of the Bonds and is intended to be the estimated incremental cost of performing the Services required by the Servicing Agreement. The Servicing Fee for any Successor Servicer not affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets may be higher than the Servicing Fee for

LIPA; provided, however, that any Servicing Fee in excess of 0.60% of the aggregate initial principal amount of the Bonds shall be subject to approval by the Authority and the Trustee. In addition to the Servicing Fee, the Issuer will reimburse the Servicer for expenses it incurs in connection with the services it performs under the Servicing Agreement. As described herein, pursuant to either the Existing OSA or the Amended OSA, PSEG-LI will provide many of the Servicer functions on behalf of LIPA, including, among other things, billing and collection, meter reading and forecasting.

### **Transition to a New Business Model**

In connection with the expiration of the MSA, the Authority determined that it was desirable to solicit proposals that would provide for, at a minimum, a different delivery structure under which the T&D System Assets would be operated and maintained by a separate subsidiary of the selected service provider that would be dedicated to the Authority's electric business, and thus better aligned to the Authority's goals. Following a competitive procurement and evaluation process, on December 15, 2011, the Authority Trustees authorized the execution of the ten-year Existing OSA between LIPA and PSEG-LI (a subsidiary of PSEG) to provide operations, maintenance and related services for the T&D System beginning on January 1, 2014 upon the expiration of the MSA. The PSEG-LI management company is the contracting entity with LIPA and is expected to consist of approximately 20 employees, while its dedicated subsidiary, the PSEG-LI service company, is expected to consist of approximately 2,250 employees, which will include a substantial majority of incumbents from the current National Grid workforce, as well as individuals from LIPA and PSEG, and external hires from the manager level and lower. PSEG-LI as used herein generally refers to both the management company and the service company, collectively. The Existing OSA and a two-year Transition Services Agreement ("TSA") between the parties were subsequently approved by the New York State Attorney General and State Comptroller. PSEG is a publicly traded energy and energy services company. In 2012, it had total assets of approximately \$31.7 billion, total revenues of approximately \$9.8 billion; and employed approximately 10,000 people. The TSA requires PSEG-LI to perform a variety of specified activities pursuant to a plan in order to position itself to assume responsibility to provide operations services on January 1, 2014. See "—General Status of Transition" below. PSEG and PSEG-LI are eligible to be the subject of a voluntary or involuntary petition in a liquidation case under chapter 7 of the Bankruptcy Code or a reorganization case under chapter 11 of the Bankruptcy Code.

### **The Existing OSA**

Under the Existing OSA, PSEG-LI is responsible for a scope of services that is substantially similar to the services currently being performed by a National Grid Sub under the MSA. The costs of operations services (including employee expenses and capital costs) will be passed-through to and paid by LIPA with no markup or profit to PSEG-LI. PSEG-LI will receive an annual management services fee as compensation for senior management salaries and benefits, corporate overhead costs and a profit element. The management services fee is based on fixed and variable pricing components. The Existing OSA contains various performance metrics designed to incentivize PSEG-LI both to maintain performance levels where LIPA already has strong performance and to improve performance in areas where LIPA is not achieving its goals. Under the Existing OSA, the Joint Operating Committee has general responsibility for governance, oversight and coordination of PSEG-LI's and its subsidiary's activities, including strategic direction, quality of services, resolution of certain issues, monitoring performance of operations services, changing performance metrics, approving the work plans (and any necessary modifications thereto) and adopting recommendations to amend or adjust the budgets as circumstances may from time-to-time warrant. Under the Existing OSA, LIPA has approval rights over any and all changes to these budgets and, has sole rights with respect to a number of matters including its rates, policies, electric supply plan, government relations, communications and PILOTs as well as the right to approve the appointment and replacement of the PSEG-LI's senior managers and the dedicated subsidiary's staffing levels.

*Termination of Existing OSA.* The Existing OSA contains customary events of default, including bankruptcy, payment failures and failure to perform material obligations under the agreement, as well as cure rights. The Existing OSA (and TSA) may be terminated upon an event of default that has not been timely cured. In the event of a bankruptcy-related event of default under the Existing OSA or a termination of the TSA due to an event of default thereunder, the Existing OSA terminates immediately without further action by the non-defaulting party. For payment defaults or, in the case of PSEG-LI and certain of its affiliates only, credit support-related defaults, the non-defaulting party may terminate upon not less than fifteen Business Days' written notice to the other party. For other events of default, the non-defaulting party must generally provide not less than ninety Business Days' written notice prior to termination. Immediately upon the expiration or any earlier termination of the Existing OSA, the

PSEG-LI management company will transfer all of the membership interests in the PSEG-LI service company and all corporate books and records to LIPA or, at LIPA's direction, its designee at no cost to LIPA or its designee. LIPA and PSEG-LI will mutually agree upon such instruments, agreements and other documents as may be reasonably necessary to effect such transfer.

LIPA may also terminate the Existing OSA (and the TSA) at any time if LIPA is privatized or operation of LIPA's T&D System is "fully municipalized" upon not less than six months' notice. In addition, in the event of a "change of control" of PSEG-LI or certain affiliated entities, LIPA has the right to terminate upon not less than thirty days' notice the TSA and/or Existing OSA, as the case may be.

Upon a termination of the Existing OSA or the expiration of the Existing OSA in accordance with its terms, PSEG-LI is only obligated to perform certain back-end transition services and to otherwise cooperate in the transition to any successor service provider.

Disputes are resolved by a binding arbitration process which is substantially the same as that used under the MSA. Certain matters, including payment disputes, proposed amendments to budgets and the exercise of termination rights for default, are subject to an expedited arbitration process.

### **The LIPA Reform Act and the Amended OSA**

In October 2012, Superstorm Sandy impacted all of the Service Area, which was declared a federal major disaster area. Following Superstorm Sandy and in response to considerable criticism of the response and restoration efforts of LIPA and other utilities, Governor Cuomo established a Moreland Act Commission on Utility Preparedness and Storm Response (the "Moreland Commission") to review and make recommendations with respect to all New York utilities, including LIPA, and their responses to recent emergency weather events. In response to the Moreland Commission's findings and recommendations, the Governor introduced the LIPA Reform Act. Certain provisions of the LIPA Reform Act were enacted in response to a number of concerns related to the contractual and organizational relationship between the Authority and its current service provider under the MSA, including difficulties during storm preparation, response and restoration of customer service; overlapping responsibilities with respect to service, operations and management; limited accountability of its service provider (under the MSA) and lack of oversight and transparency in the Authority's ratemaking process.

The LIPA Reform Act imposes new substantive obligations on any service provider and effectively shifts the major operational and policy-making responsibilities for the T&D System, including significant responsibilities relating to capital expenditures, budgets and emergency response, from LIPA to PSEG-LI. Consistent with this approach, the LIPA Reform Act requires that staffing at the Authority be kept at levels only necessary to ensure that the Authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG-LI.

The LIPA Reform Act imposes a number of new obligations on PSEG-LI, including requiring PSEG-LI to prepare and maintain an emergency response plan to assure the reasonably prompt restoration of service in the case of an emergency event and establish separate responsibilities of the Authority and the service provider; submit for review to DPS a report detailing PSEG-LI's planned capital expenditures; consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans; and submit to DPS for review, data, information and reports on PSEG-LI's actual performance related to the metrics in the Amended OSA, including the Authority's evaluation thereof, prior to the Authority's determination of PSEG-LI's annual incentive compensation. Implementation of the LIPA Reform Act requires the transfer of substantial operational duties and obligations to PSEG-LI and greater operational flexibility for PSEG-LI to carry out its related duties. As such, LIPA has negotiated the Amended OSA with PSEG-LI to address the changed relationship between the parties in connection with the provision of electric service in LIPA's Service Area.

As a condition precedent to the effectiveness of the Amended OSA, a favorable private letter ruling is required from the Internal Revenue Service ("IRS") to the effect that the Amended OSA would not cause "private business use" to arise, jeopardizing the tax-exempt status of the Authority's tax-exempt indebtedness. An additional condition precedent to its effectiveness is the approval of the 2014 and 2015 operating and capital budgets by the Authority Trustees. At the Authority's meeting on November 26, 2013, the Authority Trustees approved the 2014 and 2015 capital budgets and the 2014 operating budget. The Authority is currently discussing with PSEG-LI alternative arrangements that would address the 2015 operating budget in order to enable the Amended OSA to become effective. The other conditions precedent to effectiveness of the Amended OSA have been satisfied.

If the private letter ruling is not received by January 1, 2014, the Existing OSA and not the Amended OSA will take effect and control until all conditions precedent are satisfied. Thus, on January 1, 2014, PSEG-LI will be the service provider under the terms of either the Existing OSA or the Amended OSA and will, among other things, perform the billing and collections services required of the Servicer under the Servicing Agreement.

If the IRS does not issue a favorable private letter ruling by June 30, 2014, the Amended OSA by its terms would not take effect, unless the parties otherwise agree, and PSEG-LI would continue to operate and maintain the T&D System under the Existing OSA. Also see “—General Status of Transition” below.

The Amended OSA will extend the term of the Existing OSA term from 10 to 12 years, expiring December 31, 2025 (assuming a January 1, 2014 effective date) and provides that if PSEG-LI achieves certain levels of performance based on criteria specified in the Amended OSA during the first 10 years, the parties will negotiate in good faith an eight year extension of the Amended OSA on substantially similar terms and conditions.

*DPS Recommendation.* The LIPA Reform Act requires that the DPS review the Amended OSA and provide a recommendation to the Authority Trustees prior to the Board’s vote to approve the agreement. Accordingly, by letter dated September 27, 2013, the Chair of the DPS notified the Authority Trustees that DPS had conducted a comprehensive review of the LIPA Reform Act, the proposed Amended OSA and the management and operations audit of LIPA recently conducted by an independent consultant on behalf of the DPS, and based upon such review, DPS recommended that the Authority Trustees approve the Amended OSA.

*Compensation.* The Amended OSA increases the annual fixed and variable (incentive compensation) components of the management services fee beginning with the 2016 contract year consistent with PSEG-LI assuming additional responsibilities and the obligation to use the PSEG brand related to the provision of electric service on Long Island.

*Scope of Services.* PSEG-LI’s scope of services and LIPA’s reserved rights have been adjusted to reflect the shift in operations, management and policy making responsibilities to PSEG-LI and LIPA’s oversight rights have been enhanced. Effective no later than January 1, 2015, PSEG-LI is expected to assume certain power supply management, fuel procurement and related services that are currently provided pursuant other arrangements with different service providers.

*Termination of Amended OSA.* Like the Existing OSA, the Amended OSA contains customary events of default, including bankruptcy, payment failures and failure to perform material obligations under the agreement, as well as cure rights. The Amended OSA may be terminated upon an event of default that has not been timely cured. In the event of a bankruptcy-related event of default under the Amended OSA or a termination of the TSA due to an event of default thereunder, the Amended OSA terminates immediately without further action by the non-defaulting party. For payment defaults or, in the case of PSEG-LI and certain of its affiliates only, credit support-related defaults, the non-defaulting party may terminate upon not less than fifteen Business Days’ written notice to the other party. For other events of default, the non-defaulting party must generally provide not less than ninety Business Days’ written notice prior to termination. Immediately upon the expiration or any earlier termination of the Amended OSA, the PSEG-LI service company will transfer all of the membership interests in the PSEG-LI service company and all corporate books and records to LIPA or, at LIPA’s direction, its designee at no cost to LIPA or its designee. LIPA and PSEG-LI will mutually agree upon such instruments, agreements and other documents as may be reasonably necessary to effect such transfer.

*Additional Service Provider Termination Rights.* Under the Amended OSA, PSEG-LI may terminate the agreement in the event of either a (i) LIPA privatization, (ii) LIPA municipalization or (iii) Change in Regulatory Law (all as described below) (each, a “PSEG-LI Termination Event”).

Privatization refers to the T&D System being sold, transferred or assigned, in whole or in part, to a federal, state or municipal governmental entity or to a private entity. Municipalization refers to LIPA deciding to operate and maintain the T&D System with its own employees. The termination date would be (i) the closing date of the sale, transfer or assignment of the T&D System in the case of a Privatization or (ii) the effective date of LIPA’s employment of the T&D System operating and maintenance personnel or LIPA’s acquisition of PSEG-LI from its management company, whichever occurs first, in the case of a Municipalization.

In addition, under the Amended OSA, Change in Regulatory Law consists of a change, amendment or modification to the New York State Public Service Law, adoption of or a change to any other New York state (or federal, in the case of clause (iv) below) law or any adoption of, or change to, any interpretation (having the force of

law) of any of the foregoing or any regulation or regulatory action under the foregoing, in each case that occurs on or after the date of Amended OSA and that (i) alters the scope, nature or level of the DPS statutory oversight and review authority over the PSEG-LI or LIPA in a manner which materially and adversely affects the PSEG-LI's ability to perform its obligations under the Amended OSA, (ii) renders unenforceable or invalid, in whole or in part, any material provision of the Amended OSA, (iii) subjects PSEG-LI (or any of its affiliates that provides operations services under the Amended OSA) to rate or other substantive regulation by the DPS or other state utility commission or (iv) leads to or results in the Federal Energy Regulatory Commission ("FERC") asserting jurisdiction (A) with respect to the Amended OSA or any rate schedule related thereto or (B) over PSEG-LI (or any of its affiliates that provides operations services under the Amended OSA) by reason of its use, management or operation of the T&D System or any generation assets owned by LIPA. With respect to a termination by PSEG-LI due to a Change in Regulatory Law described in (iii) above, the Amended OSA will automatically terminate without notice or further action of the parties one day prior to the effective date of such change, unless PSEG-LI agrees in writing to waive its termination right relating thereto. In the case of a termination based on any other Change in Regulatory Law, PSEG-LI may terminate the Amended OSA by written notice to LIPA and the termination date shall be the later of (a) the effective date of such Change in Regulatory Law and (b) the date specified in such notice.

As described in more detail above (see "SERVICER AND ADMINISTRATOR—The LIPA Reform Act and the Amended OSA"), PSEG-LI has the right to terminate the Amended OSA and thus its responsibility for customer billing and collection upon the occurrence of certain events.

If a PSEG-LI Termination Event occurs and PSEG-LI exercises its right to terminate the Amended OSA, the termination notice period would generally extend for 12 or 14 months (depending on the nature of the PSEG-LI Termination Event), after which the Amended OSA would terminate and PSEG-LI would, thereafter, have no further obligations to bill and collect charges (including the Restructuring Charge) from LIPA's customers.

Under the Amended OSA, LIPA has the option to extend the effective date of any such termination for up to 6 months. In addition, if LIPA is unable to procure and contract with a successor service provider prior to the termination date of the Amended OSA, LIPA could seek to commence an arbitration proceeding under the Amended OSA on the grounds, among others, that termination of the Amended OSA under such circumstances would be contrary to the public interest and should, therefore, be deferred.

If the Amended OSA is terminated due to a PSEG-LI Termination Event, it may be difficult for LIPA to obtain a successor T&D System manager prior to the termination date of the Amended OSA (as it may be extended) and there can be no assurance that LIPA will be able to do so. In such event, the Amended OSA provides that PSEG-LI transfer to, and LIPA would take ownership of, the PSEG-LI service subsidiary. LIPA would then perform the PSEG-LI billing and collection function with the subsidiary company employees.

*Additional LIPA Termination Rights.* LIPA may also terminate the Amended OSA at any time if LIPA is privatized or operation of LIPA's T&D System is "fully municipalized" upon not less than six months' notice. In addition, in the event of a "change of control" of PSEG-LI or certain affiliated entities, LIPA has the right to terminate upon not less than thirty days' notice the Amended OSA. In the Amended OSA, LIPA will also have the additional right to terminate the agreement if PSEG-LI fails to satisfy either the new major storm or minimum performance metric for two out of any three consecutive year period beginning in 2016 upon not less than six months' prior written notice. If LIPA exercises the right to terminate the Amended OSA as set forth in this paragraph, it must set forth in its written termination notice a termination date which cannot exceed 12 months following the date of such notice.

Upon a termination of the Amended OSA (subject to the terms thereof) or nine months prior to the expiration of the Amended OSA in accordance with its terms, PSEG-LI is only obligated to perform certain back-end transition services and to otherwise cooperate in the transition to any successor service provider.

*Rate Stability.* A long-term objective of the Amended OSA is to provide for rate stability. The Authority is targeting no change in the base delivery service charge for the 2014-15 period. Fuel and purchased power cost adjustments will continue to fluctuate; fuel and purchased power expenses will continue to be passed through to ratepayers. The rate stability objective has no impact on the Restructuring Charge or any adjustments thereto.

## **General Status of Transition**

The transition from National Grid to PSEG-LI has been ongoing since the execution of the Existing OSA and the TSA. The focus has been on due diligence and analysis, knowledge transfer and transition change

implementation and testing. The expectation is that most high level associates will be incumbents and nearly three-quarters of current supervisors are expected to transition from National Grid to PSEG-LI. There will be no major relocation of operations currently on Long Island. Major vendors are transitioning “as is.” Systems and software applications are being transitioned to PSEG-LI through lease or ownership. The Authority believes that the transition is currently proceeding in substantial accordance with the TSA. However, there are elements of the transition that are not expected to be complete by January 1, 2014. Those elements include a limited number of finance, accounting and human resource related functions. In addition, the outage management system is not expected to be fully transitioned until July 2015. National Grid and PSEG-LI are presently negotiating a transition services agreement that will provide for management of those elements of the transition not complete by January 1, 2014. The Authority does not expect there to be any material adverse consequences on its finances or operations due to such ongoing transition, and it does not expect such transition will affect LIPA’s ability to fulfill its obligations under the Servicing Agreement.

### **Servicing Experience**

LIPA does not have any experience as a sponsor or servicer of a securitization transaction or as a servicer of Restructuring Property or any other property or pool of assets in any securitization transaction. However, as described herein, under the OSA, PSEG-LI will be performing the billing and collection, meter reading and forecasting on LIPA’s behalf. Affiliates of PSEG-LI have experience as securitization servicers in utility securitization transactions.

### **Allocation Account; Remittance of Restructuring Charges; Reconciliation**

*Allocation Account; Daily Remittances.* The Authority has established an Allocation Account to hold all Customer payments until the checks clear and allocations can be made. The Allocation Account is administered by an Allocation Agent designated by the Authority for the benefit of the Trustee and the trustee under the Authority’s General Resolution (as defined herein). The Authority itself will act as the Allocation Agent.

The Servicer is required to cause all payments from Customers (including Charge Collections) to be deposited into the Allocation Account. Customer revenues which are not directly paid into the Allocation Account by Customers and are otherwise received by the Servicer must be deposited into the Allocation Account within two Business Days’ receipt by the Servicer or the Authority. On each Business Day, the Allocation Agent is required to transfer to the Trustee for deposit into the Collection Account the amount of Charge Collections estimated to have been received and deposited into the Allocation Account. Such amount is referred to as “Daily Remittances.” The remaining funds in the Allocation Account on each such Business Day will be transferred to the Authority’s revenue account.

#### *Reconciliation of Actual versus Estimated Charges*

Pursuant to the Servicing Agreement, within fifteen days prior to the date on which it files an Adjustment Notice with the Authority, the Servicer is required to calculate and report the amount of Actual Charge Collections during the prior Reconciliation Period as compared to the Estimated Charge Collections in that period. The Servicer is also required to calculate the amount of any Excess Remittance or Remittance Shortfall for that prior Reconciliation Period.

If a Remittance Shortfall exists, the Servicer will cause the Allocation Agent to make a supplemental remittance from the Allocation Account to the Collection Account within two Business Days after such calculation. If an Excess Remittance exists, the Servicer will cause the Excess Remittance to be corrected as soon as practicable by either (1) reducing the amount of each Daily Remittance from the Allocation Account until the balance of the Excess Remittance has been reduced to zero, or (2) causing payment of the amount of the Excess Remittance to the Servicer (for deposit in the revenue fund established under the Authority’s General Resolution) from the General Subaccount or the Excess Funds Subaccount, if necessary.

### **Billing and Collection Policies**

#### *Credit Policy*

The provision of electric service to customers by the Authority is governed by the Home Energy Fair Practices Act (“HEFPA”), which is Article 2 of the New York Public Service Law. Pursuant to § 11.12 of HEFPA, deposits can be required from residential customers in a number of circumstances, such as for seasonal or short-term service or for Customers who have filed for bankruptcy. The deposit can be as much as twice the average monthly

bill for a calendar year. The Customer may pay the deposit in installments and the Customer earns interest on the deposit for as long as the Authority holds that amount. The deposit is automatically returned to the Customer if the Customer is not delinquent in the payment of bills during the one year period from the payment of the deposit.

All new commercial accounts require a deposit, and the HEFPA Rules allow the Authority to request a deposit from an existing, commercial Customer “whose financial condition is such that it is likely that the customer may default in the future; provided, however, that the utility must have reliable evidence of such condition, such as a report from accepted financial reporting services or credit reporting agencies.” Once a month, all existing commercial Customers go through DNBi, a web-based subscription service that automatically monitors the changing risk conditions of commercial customers in the Authority’s portfolio. A customized algorithm was developed for the Authority in conjunction with Dun & Bradstreet which combines several elements that are used to determine which Customers are at high risk for default.

The table below indicates the numbers and dollars of deposits from residential and commercial Customers held by the Authority at the beginning of the past 4 years, and at the beginning of the most recent available month. As of December 2012, approximately 19% of the Authority’s revenues were secured with a cash deposit.

**Deposits on Hand from Residential and Commercial Customers**

<u>Beginning of:</u>	<u>Number of Deposits</u>	<u>Dollars of Deposits (in thousands)</u>
2010	28,746	\$26,939
2011	28,708	26,897
2012	29,545	32,012
2013	31,202	34,218
October 2013	32,627	36,334

*Billing Process*

LIPA’s billing process is managed by the T&D System manager, which will be PSEG-LI beginning January 1, 2014. Bills are generated in a three-step process: meter reading, bill calculation, and bill printing and mailing. Meters are read on a bi-monthly cycle for approximately 979,000 residential and small commercial Customers (87% of Customers). Meters are read on a monthly cycle for approximately 83,000 larger commercial demand-metered Customers (7% of Customers) and approximately 62,000 residential Customers with special situations such as electric space heating (6% of Customers). The majority of LIPA’s meters are read manually by meter readers, except for approximately 33,000 accounts (2.8% of Customers) that are read using (i) hand-held remote sensing (19,000), (ii) using drive-by remote sensing (6,000), and (iii) remote telecommunications or experimental Smart Meter technologies (8,000).

Once the meter readings are received, bills are calculated and generated by LIPA’s service provider, which will be PSEG-LI beginning January 1, 2014, and transmitted to a vendor for printing and mailing. The billing cycle differs from the meter reading cycle in that many residential Customers that have their meters read bi-monthly receive bills from LIPA on a monthly basis. Approximately 836,000 residential Customers receive monthly bills which, combined with the approximately 83,000 commercial accounts that are billed monthly, makes a total of 919,000 Customers (82% of Customers) that receive bills monthly rather than bi-monthly.

Most of the Customers pay their bills by U.S. Mail. Payments are mailed to a Long Island address where they are retrieved and processed by a vendor working on behalf of the service provider which will be PSEG-LI beginning January 1, 2014. Payments are processed to a lock-box which will deposit the receipts into the Allocation Account. All other forms of payment are also deposited directly into an Authority bank account when they are processed or received.



### Customer Remittance Payments Processed in 2012 by Type

Type of Payment	Items (in thousands)	Dollars (in millions)
US Mail/Lockbox	4,840	\$1,903
Internet	1,110	249
Home Banking	2,554	527
Direct Debit	768	170
In-house Processing	12	35
Pay Agents	68	10
Pay by Phone	356	118
IVR	334	81
Customer Office	536	224
Large Customers ACH	1	70
Energy Assistance	54	12
Collection Agencies	11	2
	10,644	\$3,401

#### *Collection Policy*

LIPA's collection process is managed by the T&D System manager, which will be PSEG-LI beginning January 1, 2014. Collection practices, including the ability to terminate (disconnect) service, are governed by HEFPA. LIPA's bills are due immediately and payable in 20 days to avoid late payment charges and other collection activities. Bill notices and outbound telephone calls may begin as early as 30 days after a bill is issued, if payment is not received. To conform to HEFPA requirements, a series of notices will appear on the bills for delinquent Customers, indicating that service may be terminated if payment is not received. The Customer must also be offered a deferred payment agreement for outstanding arrears. The standard deferred payment agreement requires payment of up to 15% of the bill immediately, and monthly payments of the balance over ten months, plus the payment of all current charges going forward. Customers that do not make payment of their outstanding arrears or enter into a deferred payment agreement are subject to termination of service (disconnection) for non-payment. To execute the termination, a field visit is performed to offer a final opportunity to make the payment, evaluate the situation from a safety perspective and, if called for, immediately disconnect the Customer.

The ability to terminate is also restricted by weather conditions, in accordance with HEFPA. During warm weather (i.e. summer) conditions, residential service cannot be terminated when the temperature-humidity (heat) index has reached 95 degrees for two consecutive days or the temperature has been 100 degrees for any length of time or heat advisory or excessive heat warnings have been issued. Between November 1<sup>st</sup> and April 15<sup>th</sup>, a notice must be placed at the Customer's door 72 hours prior to termination and the field staff must recheck the location on the following day if there was no contact made.

Significant efforts are made through the collection process to avoid both Customer termination, if possible, and write-offs, to the extent practical. LIPA performs significant outbound calling efforts and field collection visits to give Customers every opportunity to make payment on outstanding balances. Larger commercial Customers are also visited by collections and key account representatives to explore other possible avenues for bringing the account up-to-date. Payment agreements and referrals to the appropriate social service agencies are also used to maximize the payment of outstanding arrears for residential Customers. In the event that a final bill is issued (either because the Customer left the premises without paying their outstanding balances or the Authority terminated service), an effort is made to identify any new location within the Service Area where the Customer may have moved, and have the outstanding arrears transferred there, and the balance due may be assigned to an outside collection agency for early action. Final accounts are written off to bad debt expense approximately 120 to 150 days after the final bill has been issued. Once the account is written off, the unpaid balances are generally assigned to one of the service provider's collection agencies that pursue additional collection activities in exchange for a percentage share of the recovery. Net recoveries are returned to LIPA and credited against bad debt expense.

## Revenues, LIPA's Customer Base and Electric Energy Consumption

LIPA's Customer base consists of four primary revenue reporting classes: residential, commercial, street lighting, and other public authorities.

The following tables show the electricity delivered to Customers, total billed retail electricity delivery service revenues and number of Customers for each of the customer rate classes noted below for the year ending December 31, 2012 and each of the four preceding years. There can be no assurance that the retail electricity delivery service sales, retail electric revenues and number of Customers or the composition of any of the foregoing will remain at or near the levels reflected in the following tables.

### Electricity Delivered to Customers, Total Billed Retail Electricity Delivery Service Revenues and Customers

#### Retail Electric Usage (As Measured by Billed GWh Sales) by Customer Rate Class and Percentage Composition

Customer Rate Class	2008		2009		2010		2011		2012	
Residential	9,512	47.8%	9,211	47.8%	9,972	48.9%	9,849	48.8%	9,735	48.9%
Commercial	9,912	49.9%	9,600	49.8%	9,951	48.8%	9,818	48.7%	9,666	48.4%
Street Lighting	183	0.9%	180	0.9%	177	0.9%	176	0.9%	169	0.8%
Other Public Authorities	282	1.4%	281	1.5%	276	1.4%	314	1.6%	383	1.9%
Total Retail	19,889	100.0%	19,272	100.0%	20,376	100.0%	20,157	100.0%	19,953	100.0%

#### Total Billed Retail Electricity Delivery Service Revenue by Customer Rate Class and Percentage Composition (Dollars in Millions)

Customer Rate Class	2008		2009		2010		2011		2012	
Residential	\$1,890	53.2%	\$1,813	53.2%	\$2,009	54.0%	\$1,888	53.8%	\$1,854	54.2%
Commercial	1,582	44.5%	1,519	44.5%	1,629	43.8%	1,536	43.9%	1,499	43.7%
Street Lighting	29	0.8%	28	0.8%	28	0.8%	26	0.8%	25	0.7%
Other Public Authorities	52	1.5%	51	1.5%	50	1.4%	52	1.5%	49	1.4%
Total Retail	\$3,553	100.0%	\$3,411	100.0%	\$3,716	100.0%	\$3,502	100.0%	\$3,427	100.0%

#### Service Territory Average Number of Metered Customers and Percentage Composition

Customer Rate Class	2008		2009		2010		2011		2012	
Residential	991,761	89%	995,350	89%	996,790	89%	997,599	89%	997,940	89%
Commercial	115,350	10%	115,527	10%	115,565	10%	115,370	10%	115,128	10%
Street Lighting	5,160	1%	5,292	1%	5,296	1%	5,317	1%	5,356	1%
Other Public Authorities	130	0%	131	0%	132	0%	129	0%	131	0%
Total Retail	1,112,401	100.0%	1,116,300	100.0%	1,117,783	100.0%	1,118,415	100.0%	1,118,555	100.0%

## Forecasting Electricity Consumption

### Annual Forecast Variance For Ultimate Electric Delivery (MWh)

	2008	2009	2010	2011	2012
<b>Residential</b>					
Forecast.....	9,749,652	9,676,402	9,468,343	9,441,933	9,971,900
Actual.....	9,511,874	9,211,453	9,971,614	9,848,965	9,735,407
Variance (%).....	-2.44%	-4.80%	5.32%	4.31%	-2.37%
<b>Commercial</b>					
Forecast.....	10,238,948	9,971,362	9,807,927	9,917,278	10,025,904
Actual.....	9,911,583	9,599,501	9,950,557	9,818,456	9,666,106
Variance (%).....	-3.20%	-3.73%	1.45%	-1.00%	-3.59%
<b>Street Lighting</b>					
Forecast.....	179,711	179,138	184,710	175,342	173,188
Actual.....	182,971	179,653	177,346	175,646	169,394
Variance (%).....	1.81%	0.29%	-3.99%	0.17%	-2.19%
<b>Other Public Authorities</b>					
Forecast.....	276,000	280,000	295,140	297,395	443,160
Actual.....	282,061	280,534	276,223	313,716	382,710
Variance (%).....	2.20%	0.19%	-6.41%	5.49%	-13.64%
<b>TOTAL</b>					
Forecast.....	20,444,311	20,106,902	19,756,120	19,831,948	20,614,152
Actual.....	19,888,489	19,271,141	20,375,740	20,156,783	19,953,617
Variance (%).....	-2.72%	-4.16%	3.14%	1.64%	-3.20%

## Loss Experience

The following table sets forth information relating to the annual net charge-offs for LIPA, including net charge-offs of Customers as part of LIPA's annual charge-off reconciliation process:

### Net Charge-Offs as a Percentage of Total Billed Retail Electricity Service Revenues

	As Of 12/31/08	As Of 12/31/09	As Of 12/31/10	As Of 12/31/11	As Of 12/31/12
Billed Electric Revenues (\$000)	3,552,865	3,410,044	3,716,877	3,502,556	3,426,785
Net Charge-Offs (\$000).....	17,877	21,836	24,269	24,461	19,750
Percentage of Billed Revenue.....	0.50%	0.64%	0.65%	0.70%	0.58%

## Days Sales Outstanding

The following table sets forth information relating to the average number of days that LIPA's bills remained outstanding during each of the calendar years referred to below.

### Average Days Sales Outstanding

	As Of 12/31/08	As Of 12/31/09	As Of 12/31/10	As Of 12/31/11	As Of 12/31/12
Average Days Sales Outstanding.....	29.1	32.5	34.9	38.6	39.1

## Write-Off and Delinquencies Experience

The following table sets forth information relating to the delinquency experience of LIPA during each of the calendar years referred to below.

**Average Monthly Delinquencies of  
Total Annual Billed Retail Electricity Delivery Service Revenues**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
30-59 Days.....	\$47,182,376	\$41,080,389	\$53,471,534	\$49,245,094	\$42,751,442
60-89 Days.....	\$28,235,009	\$26,422,568	\$32,522,911	\$30,326,012	\$48,570,355
90+ Days.....	\$61,446,461	\$78,185,883	\$93,066,822	\$103,037,454	\$122,692,313

**Where to Find Information About LIPA**

LIPA periodically files information with EMMA. In addition, for convenience, further information about LIPA can be found on LIPA’s website ([www.lipower.org](http://www.lipower.org)). No documents filed with EMMA or information on LIPA’s website is included by specific cross-reference herein.

**Where to Find Information regarding PSEG and PSEG-LI**

Further information about PSEG and PSEG-LI can be found at its website at <http://www.pseg.com>. No information on PSEG’s website is included by specific cross-reference herein.

**THE TRUSTEE**

The Trustee for the Bonds is The Bank of New York Mellon. The address of the principal office of the Trustee is 101 Barclay Street-Floor 7-West, New York, New York 10286.

The Trustee may resign at any time by so notifying the Issuer; provided, however, that no such resignation shall be effective until either (a) the Collateral has been completely liquidated and the proceeds distributed to the Holders or (b) a successor trustee having certain qualifications set forth in the Indenture has been designated and has accepted such trusteeship. The Holders of a majority in Outstanding Amount of the Bonds may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Issuer will remove the Trustee if the Trustee (i) ceases to satisfy certain credit standards set forth in the Indenture, (ii) becomes a debtor in a bankruptcy Proceeding or is adjudicated insolvent or a receiver or other public officer takes charge of the Trustee or its property, or (iii) becomes incapable of acting. If the Trustee resigns or is removed or a vacancy exists in the office of Trustee for any reason, the Issuer will be obligated promptly to appoint a successor Trustee.

The Trustee shall not be liable for any action it takes or omits to take in good faith in accordance with a direction it received by the Holders; provided that its conduct does not constitute willful misconduct or negligence. The Issuer has agreed to indemnify, defend and hold harmless the Trustee and its officers, directors, employees and agents from and against any and all loss, liability or expense (including reasonable attorney’s fees and expenses) incurred by it in connection with the performance of its duties under the Indenture, provided that the Issuer is not required to pay any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee’s own willful misconduct or negligence.

**RATING AGENCY CONDITION**

The Basic Documents provide that certain actions are subject to the “Rating Agency Condition.” In each such case, the “Rating Agency Condition” means, with respect to any action, not less than ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of Standard & Poor’s and Moody’s to the Servicer, the Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any series or tranche of the Bonds and that prior to the taking of the proposed action no other Rating Agency shall have provided written notice to the Issuer that such action has resulted or would result in the suspension, reduction or withdrawal of the then current rating of any series or tranche of Bonds; provided, however, that if within such ten Business Day period, any Rating Agency (other than Standard & Poor’s) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (i) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request, and if it has, promptly request the related Rating Agency Condition confirmation and (ii) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the Rating Agency Condition, any confirmation, request, acknowledgment or approval that is required

to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

## THE INDENTURE

In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.

### Reports to Holders

So long as the Trustee is the Bond Registrar and Paying Agent, upon the written request of any current or former Holder or the Issuer, the Trustee shall deliver to such Holder, within the prescribed period of time for tax reporting purposes after the end of each calendar year, such information in its possession as may be required to enable such Holder to prepare its federal income and any applicable local or state tax returns. If the Bond Registrar and Paying Agent is other than the Trustee, such Bond Registrar and Paying Agent, within the prescribed period of time for tax reporting purposes after the end of each calendar year, shall deliver to each relevant current or former Holder such information in its possession as may be required to enable such Holder to prepare its federal income and any applicable local or state tax returns.

On or prior to each Payment Date, the Trustee will deliver to each Holder on such Payment Date a statement prepared by the Servicer and provided to the Trustee which will include (to the extent applicable) the following information as to the Bonds with respect to such Payment Date or the period since the previous Payment Date, as applicable:

- (a) the amount of the payment to Holders allocable to principal,
- (b) the amount of the payment to Holders allocable to interest,
- (c) the Outstanding Amount of each tranche, before and after giving effect to payments allocated to principal reported under clause (a) above,
- (d) the difference, if any, between the Outstanding Amount of each tranche and the projected principal balance as of such Payment Date, after giving effect to payments to be made on such Payment Date,
- (e) the amounts on deposit in the Reserve Subaccount as of such Payment Date,
- (f) the amount, if any, on deposit in the Excess Funds Subaccount as of the Payment Date,
- (g) the amount paid to the Trustee since the previous Payment Date,
- (h) the amount paid to the Servicer since the previous Payment Date,
- (i) the amount paid to the Administrator since the previous Payment Date, and
- (j) any other transfers and payments to be made pursuant to the Indenture since the previous Payment Date.

### Covenants of Issuer

*Affirmative Covenants.* The Issuer agrees to:

- duly and punctually pay principal of and redemption price, if any, and interest on the Bonds when due in accordance with the terms of the Bonds and the Indenture,
- appoint the Trustee as its agent to receive all Bonds that are surrendered for registration of transfer or exchange,
- make all payments of amounts due and payable from amounts in the Collection Account and no amounts so withdrawn from the Collection Account for payments of Bonds shall be paid to the Issuer except as provided in the Indenture,
- cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent agrees to:

- hold all sums held by it for the payment of amounts due with respect to the Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided,
- give the Trustee notice of any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default (a “Default”) by the Issuer of which it has actual knowledge in the making of any payment required to be made with respect to the Bonds,
- at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent,
- immediately resign as a Paying Agent and forthwith pay to the Trustee all sums held by it in trust for the payment of the Bonds if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment, and
- comply with all requirements of the Internal Revenue Code with respect to the withholding from any payments made by it on any Bonds of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.
- direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent and upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money,
- make (except to the extent required to be made by the Seller or Servicer) all such filings pursuant to the Securitization Law or the Financing Order, instruments of further assurance and other instruments, and will take such other action necessary or advisable to maintain and preserve the Collateral,
- execute and deliver all such supplements and amendments thereto,
- diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral and not take any action and use its reasonable efforts not to permit any action to be taken by others that would release any Person from any of such Person’s covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly permitted in the Basic Documents or such other instrument or agreement,
- punctually perform and observe all of its obligations and agreements contained in the Indenture, in the Basic Documents and in the instruments and agreements included in the Collateral,
- not waive, amend, modify, supplement or terminate any Basic Document or any provision thereof without the written consent of (a) the Trustee (which consent shall not be withheld if (i) the Trustee shall have received an Officer’s Certificate stating that such waiver, amendment, modification, supplement or termination shall not adversely affect in any material respect the interests of the Bondholders or the holders of Certificates and (ii) the Rating Agency Condition shall have been satisfied with respect thereto) or (b) the Holders of at least a majority of the Outstanding Amount of Bonds,
- if it has knowledge of the occurrence of a Servicer Default under the Servicing Agreement, promptly give written notice thereof to the Trustee and the Rating Agencies, and shall specify in such notice the action, if any, the Issuer is taking with respect of such default and if a Servicer Default shall arise from the failure of the Servicer to perform any of its duties or obligations under the Servicing Agreement with respect to the Restructuring Property, including the Restructuring Charge, the Issuer shall take all reasonable steps available to it to remedy such failure,
- as required by the Servicing Agreement, appoint a Successor Servicer with the Trustee’s prior written consent thereto (which consent shall not be unreasonably withheld and shall be given upon the written direction of Holders of not less than a majority of the Outstanding Amount of the Bonds), and such Successor Servicer shall accept its appointment by a written assumption in a form acceptable to the Issuer and the Trustee. If within 30 days after the delivery of the notice referred to above, the Issuer shall not have obtained such a new Successor Servicer, the Trustee, at the expense of the Issuer, may

petition a court of competent jurisdiction to appoint a Successor Servicer. In connection with any such appointment, the Issuer may make such arrangements for the compensation of such Successor Servicer as it and such Successor Servicer shall agree, subject to the limitations set forth below and in the Servicing Agreement, and in accordance and in compliance with the Servicing Agreement, the Issuer shall enter into an agreement with such Successor Servicer for the servicing of the Restructuring Property (such agreement to be in form and substance satisfactory to the Trustee),

- upon any termination of the Servicer's rights and powers pursuant to the Servicing Agreement, the Trustee shall promptly notify the Issuer, the Bondholders and the Rating Agencies, and as soon as a Successor Servicer is appointed, the Issuer shall notify the Trustee, the Bondholders and the Rating Agencies of such appointment, specifying in such notice the name and address of such Successor Servicer,
- not, without the prior written consent of the Trustee or the Holders of at least a majority in Outstanding Amount of the Bonds, amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, supplement, termination, waiver or surrender of, the terms of any Collateral or the Basic Documents, or waive timely performance or observance of any material term by the Seller or the Servicer under the Sale Agreement or the Servicing Agreement, respectively; provided, however, that if the Rating Agency Condition is met, no such consent shall be required with respect to any agreements, to accommodate the issuance of any additional bonds, notes or other obligations issued by the Issuer as permitted by the laws of the State of New York and the Indenture,
- enforce the Servicer's compliance with all of the Servicer's obligations under the Servicing Agreement to the extent material to the payment and security of the Bonds,
- give the Trustee and the Rating Agencies prompt written notice of each Event of Default thereunder as provided in the Indenture, or waiver thereof and each default on the part of the Seller or the Servicer of its obligations under the Sale Agreement or the Servicing Agreement, respectively, materially and adversely affecting the Bonds,
- upon request of the Trustee, the Issuer will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of the Indenture and maintain a first priority perfected security interest in the Collateral in favor of the Trustee,
- with respect to the Series 2013TE Bonds, the interest on which is intended to be excluded from gross income for federal income tax purposes, comply with the applicable provisions of the Internal Revenue Code relating to the exclusion of the interest on the Series 2013TE Bonds from gross income for federal income taxation purposes, and
- comply with the tax agreements executed and delivered by it and the letter of instructions, if any, delivered by Bond Counsel, in connection with the issuance of the Bonds as to compliance with applicable provisions of the Internal Revenue Code, as such tax covenants and agreements and letter may be amended from time to time, as a source of guidance for achieving compliance with the Internal Revenue Code, including, without limitation, timely payments of all rebate or other amounts to the United States Department of the Treasury under Section 148 of the Internal Revenue Code.

*Negative Covenants.* So long as any Bonds are Outstanding, the Issuer shall not:

- except as expressly permitted by the Indenture, sell, transfer, exchange or otherwise grant or dispose of any of, or assign any interest in, the Collateral, unless directed to do so by the Trustee in accordance with the Indenture,
- claim any credit on, or make any deduction from the principal or interest payable in respect of, the Bonds (other than amounts properly withheld from such payments under the Internal Revenue Code or other tax law) or assert any claim against any present or former Bondholder by reason of the payment of the taxes levied or assessed upon any part of the Collateral,
- voluntarily consent to the termination of its existence or its dissolution or liquidation in whole or in part,

- permit the validity or effectiveness of the Indenture to be impaired, or permit the Lien of the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Bonds under the Indenture except as may be expressly permitted hereby,
- permit any Lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the Lien of the Indenture and the Lien created by the Securitization Law) to be created by the Issuer on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof,
- subject to the Lien created by the Securitization Law, permit the Lien of the Indenture not to constitute a valid first priority security interest in the Collateral,
- take any action which is subject to a Rating Agency Condition without satisfying the Rating Agency Condition,
- issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the Bonds,
- issue any additional Bonds, except pursuant to the Indenture,
- except as otherwise contemplated by the Sale Agreement, the Servicing Agreement or the Indenture, make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person,
- other than expenditures in connection with the Issuer's purchase of the Restructuring Property from the Seller, make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty), and
- take or cause to be taken, or permit to be taken, any action or actions with respect to the application and investment of any proceeds of the Series 2013TE Bonds (the interest on which is intended to be excluded from gross income for federal income tax purposes) or any other funds from whatever source derived which would cause any Series 2013TE Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code or "private activity bonds" within the meaning of Section 141 of the Internal Revenue Code. The Issuer will not to consent to any amendment to, or waive performance of, any covenant of the Authority or the Servicer relating to the use, ownership or management of the projects or any portion thereof financed or refinanced by the Series 2013TE Bonds in the tax agreements or certificates entered into by the Authority and the Servicer in connection with the Series 2013TE Bonds unless the Issuer has received an Opinion of Counsel from a nationally recognized bond counsel to the effect that such amendment or waiver would not, by itself, cause any Series 2013TE Bonds to be "private activity bonds" within the meaning of Section 141 of the Internal Revenue Code or otherwise cause interest on the Series 2013TE Bonds to be included in gross income for federal income tax purposes.

### **Events of Default**

The Indenture provides that each of the following will constitute "Events of Default" thereunder:

- (a) default in the payment of any interest or redemption premium on any Bond when the same becomes due and payable, and such default shall continue for a period of 5 Business Days,
- (b) default in the payment of the then unpaid principal of any tranche of a Bond on the Final Maturity Date for such tranche,
- (c) default in the observance or performance in any material respect of any covenant or agreement of the Issuer made in the Indenture (other than a covenant or agreement, a default in the observance or performance of which is specifically described elsewhere in this section) or any representation or warranty of the Issuer made in the Indenture or in any certificate or other writing delivered



pursuant to the Indenture or in connection therewith proving to have been incorrect in any material respect as of the time when the same shall have been made, and such default shall continue or not be cured or the circumstances or condition in respect of which such misrepresentation or warranty was incorrect shall not have been eliminated or otherwise cured, as the case may be, for a period of 30 days after the earlier of (i) the date that there shall have been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Holders of at least 25% of the Outstanding Amount of the Bonds, a written notice specifying such default and requiring it to be remedied and stating that such notice is a “Notice of Default” under the Indenture or (ii) the date that the Issuer has actual knowledge of the default,

- (d) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Issuer or any substantial part of the Collateral in an involuntary case or Proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or ordering the winding-up or liquidation of the Issuer’s affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days,
- (e) the commencement by the Issuer of a voluntary case or Proceeding under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case or Proceeding under any such law, or the consent by the Issuer to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or the making by the Issuer of any general assignment for the benefit of creditors, or the failure by the Issuer generally to pay its debts as such debts become due, or the taking of action by the Issuer in furtherance of any of the foregoing, or
- (f) any act or failure to act by the State or any of its agencies (including the Authority), officers or employees which violates or is not in accordance with the Financing Order or the State Pledge.

Failure to pay principal or, with respect to the Series 2013TE Bonds, the redemption price, in accordance with the related Expected Amortization Schedule because collections from Customers were not sufficient to make such payments shall not constitute an Event of Default under the Indenture; provided, however, that failure to pay the entire unpaid principal amount of the Bonds of a tranche upon the Final Maturity Date of the tranche shall constitute an Event of Default, and the entire unpaid principal amount of the Bonds shall be due and payable, if not previously paid, on any other date on which an Event of Default shall have occurred and be continuing, if the Trustee or the Holders representing not less than a majority of the Outstanding Amount of the Bonds have declared the Bonds to be immediately due and payable on acceleration.

#### **Remedies—Acceleration**

If an Event of Default under the Indenture should occur and be continuing, then and in every such case the Trustee or the Holders representing not less than a majority of the Outstanding Amount of the Bonds may declare all the Bonds to be immediately due and payable, by a notice in writing to the Issuer (and to the Trustee if given by Holders), and upon any such declaration the unpaid principal amount of the Bonds, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders representing a majority of the Outstanding Amount of the Bonds, by written notice to the Issuer and the Trustee, may rescind and annul such declaration and its consequences if:

- (i) the Issuer has paid or deposited with the Trustee a sum sufficient to pay (A) all sums paid or advanced by the Trustee thereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel and (B) all payments of principal of and interest on all Bonds and all other amounts that would then be due thereunder or upon such Bonds if the Event of Default giving rise to such acceleration had not occurred, and

(ii) all Events of Default under the Indenture, other than the nonpayment of the principal of the Bonds that has become due solely by such acceleration, have been cured or waived as provided in the Indenture.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

### **Remedies—Trustee’s Rights**

If an Event of Default under the Indenture shall have occurred and be continuing, the Trustee may do one or more of the following (subject to the provisions of the Indenture):

- (a) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Bonds or under the Indenture with respect thereto, whether by declaration of acceleration or otherwise, enforce any judgment obtained, and collect from the Issuer and any other obligor upon such Bonds moneys adjudged due,
- (b) institute Proceedings from time to time for the complete or partial foreclosure of the Indenture with respect to the Collateral,
- (c) exercise any remedies of a secured party under the Securitization Law or other applicable law and take any other appropriate action to protect and enforce the rights and remedies of the Trustee and the Holders of the Bonds,
- (d) sell the Collateral or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law, and
- (e) exercise all rights, remedies, powers, privileges and claims of the Issuer against the Servicer under or in connection with, and pursuant to the terms of, the Servicing Agreement;

provided, however, that the Trustee may not sell or otherwise liquidate any portion of the Collateral following an Event of Default, other than an Event of Default described in clauses (a) and (b) under “Events of Default” above, unless (A) the Holders of 100% of the Outstanding Amount of the Bonds consent thereto, (B) the proceeds of such sale or liquidation distributable to the Holders are sufficient to discharge in full all amounts then due and unpaid upon such Bonds for principal and interest after taking into account payment of all amounts due prior thereto pursuant to the priorities set forth above under “Collection Account and Subaccounts,” or (C) the Trustee determines that the Collateral will not continue to provide sufficient funds for all payments on the Bonds as they would have become due if the Bonds had not been declared immediately due and payable, and the Trustee obtains the written consent of Holders of at least a majority of the Outstanding Amount of the Bonds. In determining such sufficiency or insufficiency with respect to clause (B) or (C), the Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Collateral for such purpose.

If the Trustee collects any money, it shall pay out such money in accordance with the priorities set forth in “SECURITY FOR THE BONDS—Description of Indenture Accounts.”

The rights and remedies conferred upon or reserved to the Trustee or the Bondholders by the Indenture is not exclusive to any right or remedy and is cumulative and in addition to every other right or remedy.

### **Remedies—Optional Possession of Collateral**

If the Bonds have been declared to be due and payable under the Indenture following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Trustee may, but need not, elect to maintain possession of the Collateral. In determining whether to maintain possession of the Collateral or sell or liquidate the same, the Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or certified public accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Collateral for such purpose.

### **Remedies—Limitation of the Rights of Holders**

No Holder of any Bond shall have any right to institute any Proceeding, judicial or otherwise, with respect to the Indenture, or to avail itself of any remedies provided in the Securitization Law or to utilize or enforce the statutory lien or to avail itself of the right to foreclose on the Collateral or otherwise enforce the Lien and the

security interest on the Collateral with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (a) such Holder previously has given written notice to the Trustee of a continuing Event of Default under the Indenture,
- (b) the Holders of not less than a majority of the Outstanding Amount of the Bonds have made written request to the Trustee to institute such Proceeding in respect of such Event of Default under the Indenture in its own name as Trustee under the Indenture,
- (c) such Holder or Holders have offered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in complying with such request,
- (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings, and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of at least a majority of the Outstanding Amount of the Bonds;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Holders or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under the Indenture, except in the manner therein provided.

In the event the Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Holders, each representing less than a majority of the Outstanding Amount of the Bonds, the Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of the Indenture.

#### **Voting of Bonds; Control of Proceedings by Holders**

The Holders of a majority of the Outstanding Amount of the Bonds (or, if less than all tranches are affected, the affected tranche or tranches) have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Trustee with respect to the Bonds of such tranche or tranches or exercising any trust or power conferred on the Trustee with respect to such tranche or tranches; provided that:

- (a) such direction shall not be in conflict with any rule of law or with the Indenture,
- (b) subject to the express terms of the Indenture, any direction to the Trustee to sell or liquidate any Collateral shall be by the Holders representing 100% of the Outstanding Amount of the Bonds,
- (c) if the conditions set forth in the Indenture have been satisfied and the Trustee elects to retain the Collateral, then any direction to the Trustee by Holders representing less than 100% of the Outstanding Amount of the Bonds to sell or liquidate the Collateral shall be of no force and effect, and
- (d) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction;

provided, however, that the Trustee's duties shall be subject to the terms of the Indenture, and the Trustee need not take any action that it determines might involve it in liability or might materially adversely affect the rights of any Holders not consenting to such action. Furthermore and without limiting the foregoing, the Trustee shall not be required to take any action for which it reasonably believes that it will not be indemnified to its satisfaction against any cost, expense or liability.

#### **Waiver of Past Defaults**

Prior to the declaration of the acceleration of the maturity of the Bonds, Holders representing a majority of the Outstanding Amount of the Bonds (or, if less than all tranches are affected, the Holders of a majority of the Bonds of the affected tranches in the aggregate) may, by written notice to the Trustee, waive any past default or event of default under the Indenture and its consequences, except a default (a) in payment of principal of or interest on any of the Bonds or (b) in respect of a covenant or provision hereof which cannot be modified or amended without the consent of the Holder of each Bond of all tranches affected. In the case of any such waiver, the Issuer, the Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such

waiver shall extend to any subsequent or other default or event of default under the Indenture or impair any right consequent thereto.

Upon any such waiver, such default shall cease to exist and be deemed to have been cured and not to have occurred, and any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of the Indenture; but no such waiver shall extend to any subsequent or other default or event of default under the Indenture or impair any right consequent thereto.

#### **Modifications of Indenture that Do Not Require the Consent of Holders**

Without the consent of the Holders of any Bonds but with prior notice to the Rating Agencies, the Issuer and the Trustee, when authorized by an Issuer Order, at any time and from time to time, may enter into one or more indentures supplemental to the Indenture in form reasonably satisfactory to the Trustee, for any of the following purposes:

- (i) to correct or amplify the description of any property, including, without limitation, the Collateral, at any time subject to the Lien of the Indenture, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the Lien of the Indenture, or to subject to the Lien of the Indenture additional property,
- (ii) to evidence the succession, in compliance with the applicable provisions thereof, of another person to the Issuer, and the assumption by any such successor of the covenants of the Issuer in the Indenture and in the Bonds,
- (iii) to add to the covenants of the Issuer, for the benefit of the Holders, or to surrender any right or power conferred upon the Issuer by the Indenture,
- (iv) to convey, transfer, assign, mortgage or pledge any property to or with the Trustee,
- (v) to cure any ambiguity, to correct or supplement any provision in the Indenture or in any supplemental indenture, which may be inconsistent with any other provision of the Indenture or in any supplemental indenture, or to make any other provisions with respect to matters or questions arising under the Indenture or in any supplemental indenture; provided, however, that such action shall not adversely affect the interests of the Holders of the Bonds,
- (vi) to evidence and provide for the acceptance of the appointment under the Indenture by a successor Trustee with respect to the Bonds and to add or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts thereunder by more than one Trustee, pursuant to the requirements set forth in the Indenture,
- (vii) to modify, eliminate or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act or under any similar federal statute hereafter enacted and to add to the Indenture such other provisions as may be expressly required by the Trust Indenture Act,
- (viii) to qualify the Bonds of any tranche for listing on a securities exchange or registration with a Clearing Agency, or
- (ix) to satisfy any Rating Agency requirements or to maintain, or improve upon, the existing ratings on the Bonds.

The Issuer and the Trustee, when authorized by an Issuer Order, may, also without the consent of any of the Holders of the Bonds enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of the Holders under the Indenture; provided, however, that (i) such action shall not, as evidenced by an Officer's Certificate, adversely affect in any material respect the interests of the Holders and (ii) the Rating Agency Condition shall have been satisfied with respect thereto.

#### **Modifications of Indenture that Require the Consent of Holders**

The Issuer and the Trustee, when authorized by an Issuer Order, also may, with prior notice to the Rating Agencies and with the consent of the Holders of not less than a majority of the Outstanding Amount of the Bonds of each tranche to be affected, by act of such Holders delivered to the Issuer and the Trustee, enter into an indenture or

indentures supplemental to the Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of the Holders under the Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Bond of each tranche affected thereby:

- (i) change the date of payment of any installment of principal of or interest on any Bond, or reduce the principal amount thereof, or the interest rate thereon, change the provisions of the Indenture relating to the application of collections on, or the proceeds of the sale of, the Collateral to payment of principal of or interest on the Bonds, or change any place of payment where, or the coin or currency in which, any Bond or the interest thereon is payable, or impair the right to institute suit for the enforcement of the provisions of the Indenture requiring the application of funds available therefor, as provided in the Indenture, to the payment of any such amount due on the Bonds on or after the respective due dates thereof,
- (ii) reduce the percentage of the Outstanding Amount of the Bonds or of a tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the Indenture,
- (iii) modify or alter the provisions of the proviso to the definition of “Outstanding,”
- (iv) reduce the percentage of the Outstanding Amount of the Bonds required to direct the Trustee to direct the Issuer to sell or liquidate the Collateral pursuant to the Indenture,
- (v) modify any provision of the Indenture relating to supplemental indentures requiring Holders’ consent except to increase any percentage specified therein or to provide that certain additional provisions of the Indenture or the other Basic Documents cannot be modified or waived without the consent of the Holder of each Outstanding Bond affected thereby,
- (vi) modify any of the provisions of the Indenture in such manner as to affect the calculation of the amount of any payment of interest or principal due on any Bond on any Payment Date (including the calculation of any of the individual components of such calculation) or change the Expected Amortization Schedules, Scheduled Sinking Fund Redemption Date or Final Maturity Dates of any tranche of Bonds,
- (vii) decrease the Required Reserve Level,
- (viii) modify the provisions of the Indenture regarding the voting of the Bonds held by the Issuer, the Servicer or any Affiliate of any of the foregoing Persons,
- (ix) decrease the percentage of the aggregate principal amount of Bonds or affected tranche required to amend the sections of the Indenture which specify applicable percentages of the aggregate principal amount of the Bonds necessary to amend any Basic Document,
- (x) cause a violation of the tax covenants of the Issuer, or
- (xi) permit the creation of any Lien ranking prior to or on a parity, other than as specifically contemplated in the Indenture, with the Lien of the Indenture with respect to any part of the Collateral or, except as otherwise permitted or contemplated herein, terminate the Lien of the Indenture on any property at any time or deprive the Holder of any Bond of the security provided by the Lien of the Indenture.

It shall not be necessary for any consent of Holders under the Indenture to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Holders shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any supplemental bond indenture, the Issuer shall send to the Rating Agencies and the Holders to which such amendment or supplemental bond indenture relates either a copy of such supplemental indenture or a notice setting forth in general terms the substance of such supplemental bond indenture.

## Satisfaction and Discharge of Indenture

The Indenture shall cease to be of further effect with respect to the Bonds and the Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute such instruments as the Issuer reasonably requests acknowledging satisfaction and discharge of the Indenture with respect to the Bonds, when:

- (i) either:
  - (A) all Bonds theretofore authenticated and delivered (other than (1) Bonds that have been destroyed, lost or stolen and that have been replaced or paid as provided in the Indenture and (2) Bonds for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust as provided in the Indenture) have been delivered to the Trustee for cancellation, or
  - (B) the Final Maturity Date has occurred with respect to all Bonds not theretofore delivered to the Trustee for cancellation and the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Trustee cash in an amount sufficient to pay principal and to discharge the entire indebtedness on such Bonds not theretofore delivered to the Trustee for cancellation on the Final Maturity Date,
- (ii) the Issuer has paid or caused to be paid all other sums payable thereunder by the Issuer, and
- (iii) the Issuer has delivered to the Trustee an Officer's Certificate, an Opinion of Counsel of Independent counsel and (if required by the Trustee) an Independent Certificate from a firm of certified public accountants, each meeting the requirements of the Indenture and each stating that all conditions precedent therein provided for relating to the satisfaction and discharge of the Indenture with respect to Bonds have been complied with.

## Legal Defeasance

Subject to the provisions of the Indenture, including those detailed in "Conditions to Defeasance" below, the Issuer at any time may terminate all its obligations under the Indenture with respect to the Bonds (a "Legal Defeasance"). In the event of a Legal Defeasance, the maturity of the Bonds may not be accelerated because of an Event of Default.

Upon satisfaction of the conditions set forth in the Indenture to a Legal Defeasance, the Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute such instruments as Issuer reasonably requests acknowledging satisfaction and discharge of the obligations that are terminated pursuant to such exercise.

*Conditions to Defeasance.* The Issuer may exercise a Legal Defeasance only if:

- (a) the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Trustee cash or noncallable defeasance securities for the payment of principal or redemption price of and interest on each such Bonds to the Scheduled Maturity Date (or, applicable, at the election of the Issuer, any earlier optional redemption date of the Series 2013TE Bonds) or the Scheduled Sinking Fund Redemption Date (or, if applicable, any optional redemption date), or with respect to the Bonds of any tranche subject to optional redemption, cash or non-callable defeasance securities for the payment of principal or the redemption price of and interest on each such Bonds as set forth in the written notice provided by the Issuer,
- (b) the Issuer delivers to the Trustee a certificate from a nationally recognized firm of Independent certified public accountants expressing its opinion that the payments of principal and interest when due and without reinvestment of the deposited Defeasance Securities plus any deposited cash without investment will provide cash at such times and in such amounts (but not substantially more than such amounts) as will be sufficient to pay in respect of the Bonds (i) principal on the Scheduled Maturity Date in accordance with the Expected Amortization Schedule therefor (or, if applicable, at the election of the Issuer, any earlier optional redemption date) or redemption price on the Scheduled Sinking Fund Redemption Date in accordance with the Expected Sinking Fund Schedule therefor (or, if applicable, at the election of the Issuer, any earlier optional redemption date), as applicable, and (ii) interest when due,

- (c) if an election is made to redeem any such Bonds prior to maturity, the Issuer irrevocably designates such Bonds for redemption on the redemption date and proper notice of redemption has been made or provision satisfactory to the Trustee has been irrevocably made for the giving of such notice,
- (d) no Default has occurred and is continuing on the day of such deposit and after giving effect thereto,
- (e) in the case of an exercise of a Legal Defeasance with respect to the Series 2013TE Bonds, the Issuer shall have delivered to the Trustee an Opinion of Counsel stating that the Holders of the Bonds will not recognize income, gain or loss for federal or New York income tax purposes as a result of such legal defeasance and will be subject to federal or New York income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred, and
- (f) in the case of an exercise of a Legal Defeasance with respect to the Series 2013T Bonds, the Issuer shall have delivered to the Bond Trustee an Opinion of Counsel stating that (i) the Issuer has received from, or there has been published by, the IRS a ruling, or (ii) since the date of execution of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of such Bonds will not recognize income, gain or loss for federal or New York income tax purposes as a result of such legal defeasance and will be subject to federal or New York income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred,
- (g) the Issuer delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent to the satisfaction and discharge of the Bonds to the extent contemplated by the provisions governing defeasance contained in the Indenture have been complied with.

#### **No Recourse to Others**

No recourse may be taken, directly or indirectly, by the Holders with respect to the obligations of the Issuer or the Trustee on the Bonds or under the Indenture or any certificates or other writing delivered in connection therewith, against (i) any trustee, director, officer, employee, agent or attorney of the Issuer or (ii) any shareholder, partner, owner, beneficiary, agent, officer, director or employee of the Trustee. Each Holder by accepting a Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. These waivers and releases are part of the consideration for the issuance of the Bonds.

Notwithstanding any provision of the Indenture or any supplemental bond indenture to the contrary, Holders and the Trustee shall have no recourse against the credit or any assets of the Authority, LIPA or the Issuer (other than in the case of the Issuer, the Collateral), with respect to any amounts due to the Holders under the Indenture and under the Bonds and to the Trustee. Each Holder by accepting a Bond, and the Trustee, specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. These waivers and releases are part of the consideration for issuance of the Bonds.

#### **THE SALE AGREEMENT**

The following summary describes particular material terms and provisions of the Sale Agreement pursuant to which the Issuer will purchase the Restructuring Property from the Authority. This summary does not purport to be complete and is subject to and qualified by reference to the provisions of the Sale Agreement.

#### **Sale of the Restructuring Property**

In exchange for an amount equal to the net proceeds of the sale of the Bonds, the Seller will irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer the Restructuring Property. The Restructuring Property will include the assignment of all revenues, collections, claims, payments, money or proceeds of or arising from the Restructuring Charges.

Under the Securitization Law, the sale of Restructuring Property will constitute an absolute transfer and true sale under state law, effective and perfected against all third parties, and will not be affected or impaired by, among other things, the occurrence of any of the following:

- the commingling of collections of Restructuring Charges with other accounts,
- the retention by the Seller of either of the following:
  - a partial or residual interest, including an equity interest, in the Restructuring Property, whether direct or indirect, or whether subordinate or otherwise,
  - the right to recover costs associated with taxes, payments in lieu of taxes, franchise fees, or license fees imposed on the collection of Restructuring Charges,
- any recourse that the Issuer may have against the Seller,
- any indemnification rights, obligations, or repurchase rights made or provided by the Seller,
- the obligation of the Seller to collect Restructuring Charges on behalf of the Issuer,
- the treatment of the sale, assignment, or transfer by the Seller to the Issuer for tax, financial reporting, or other purposes,
- any subsequent order of the Authority amending the Financing Order pursuant to the Securitization Law, or
- any application of the True-Up Adjustment mechanism under the Financing Order.

Upon the issuance of the Financing Order and the transfer of the Restructuring Property, the transfer will be perfected as against the Authority, all parties having claims of any kind against the Authority, and all other transferees of the Authority, including subsequent judicial or other lien creditors.

#### **Seller Representations and Warranties**

In the Sale Agreement, the Seller will represent and warrant to the Issuer, as of the Issuance Date, to the effect, among other things, that:

- the Seller is duly organized and validly existing as a corporate municipal instrumentality, body corporate and politic and a political subdivision of the State of New York, in good standing under the laws of the State of New York, with the requisite power and authority to own its properties and conduct its business as currently owned or conducted, and has the requisite power and authority to own the Restructuring Property,
- the Seller is duly qualified to do business and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the Seller's business, operations, assets, revenues or properties),
- the Seller has the requisite power and authority to execute and deliver the Sale Agreement and to carry out its terms, and the execution, delivery and performance of the Sale Agreement have been duly authorized by all necessary action on the part of the Seller,
- the Sale Agreement constitutes a legal, valid and binding obligation of the Seller, enforceable against it in accordance with its terms, subject to customary exceptions relating to bankruptcy, creditor's rights and equitable principles,
- the sale of the Restructuring Property and the consummation of the transactions contemplated by the Securitization Law and the Sale Agreement and the fulfillment of the terms thereof do not (a) conflict with or result in a breach of any of the terms and provisions of nor constitute (with or without notice or lapse of time) a default under the Seller's organizational documents or any material indenture, agreement or other instrument to which the Seller is a party or by which it is bound, (b) result in the creation or imposition of any lien upon any of the Seller's properties pursuant to the terms of any such indenture, agreement or other instrument (other than any Lien that may be granted under the Basic Documents) or (c) violate any existing law or any existing order, rule or regulation applicable to the Seller of any government authority having jurisdiction over the Seller or its properties,



- no proceedings or investigation is pending and, to the Seller's knowledge, no Proceeding or investigation is threatened, before any Governmental Authority having jurisdiction over the Seller or its properties involving or relating to the Seller or to the Issuer or, to the Seller's knowledge, any other Person:
  - asserting the invalidity of the Securitization Law, the Financing Order, the Sale Agreement,
  - seeking to prevent the consummation of any of the transactions contemplated by the Sale Agreement or any of the other Basic Documents,
  - seeking any determination or ruling that might materially and adversely affect the performance by the Seller of its obligations under, or the validity or enforceability of, the Securitization Law, the Financing Order, the Bonds, the Sale Agreement or the other Basic Documents, or
  - seeking to adversely affect the federal income tax or state income tax classification of the Bonds as debt,
- no approvals, authorizations, consents, orders or other actions of, or filings with, any Governmental Authority are required for the Seller to execute, deliver, perform and fulfill its obligations under the Sale Agreement except those which have been obtained, waived or made and are in full force and effect, and
- no portion of the Restructuring Property has been sold, transferred, assigned or pledged by the Seller to any Person other than the Issuer. Upon the sale, the Seller has transferred, sold and conveyed the Restructuring Property to the Issuer, free and clear of all Liens, except for any Lien that may be granted under the Basic Documents.

The Seller will not be in breach of any representation or warranty as a result of any change in law by means of any legislative enactment, constitutional amendment or otherwise that renders any of the representations or warranties untrue.

### **Covenants of the Seller**

In the Sale Agreement, the Seller makes the following covenants:

- Subject to its right to assign its rights and obligations to a successor utility under the Sale Agreement, so long as any of the Bonds are outstanding, the Seller will (a) keep in full force and effect its existence, rights and franchises as a corporate municipal instrumentality, body corporate and politic and a political subdivision of the State of New York, and (b) obtain and preserve its qualification to do business, in each case to the extent that in each such jurisdiction such existence or qualification is or shall be necessary to protect the validity and enforceability of the Sale Agreement, the other Basic Documents to which the Seller is a party and each other instrument or agreement to which the Seller is a party necessary or appropriate to the proper administration of the Sale Agreement and the transactions contemplated thereby.
- Except for the conveyances under the Sale Agreement or the Back-Up Security Interest, the Seller will not sell, pledge, assign or transfer, or grant, create or incur any Lien on, any of the Restructuring Property, or any interest therein, and the Seller will defend the right, title and interest of the Issuer and of the Trustee, in, to and under the Restructuring Property against all claims of third parties claiming through or under the Seller. The Seller, also covenants that, in its capacity as Seller as defined in the Sale Agreement, it will not at any time assert any Lien against, or with respect to, any of the Restructuring Property.
- If the Seller receives any payments in respect of the Restructuring Charges or the proceeds thereof when it is acting as the Servicer, the Seller agrees to pay all those payments to the Servicer as soon as practicable after receipt thereof.
- The Seller will notify the Issuer and the Trustee promptly after becoming aware of any Lien on any of the Restructuring Property, other than the conveyances under the Sale Agreement, or any Lien under the Basic Documents or for the benefit of Issuer.

- The Seller agrees to comply with its organizational and governing documents and all laws, treaties, rules, regulations and determinations of any governmental instrumentality applicable to it, except to the extent that failure to so comply would not materially adversely affect the Issuer's or the Trustee's interests in the Restructuring Property or under any of the other Basic Documents to which the Seller is a party or the Seller's performance of its obligations under the Sale Agreement or under any of the Basic Documents to which the Seller is a party.
- So long as any of the bonds are outstanding, the Seller will:
  - treat the Bonds as debt of the Issuer and not the Seller, except for financial, accounting or tax reporting purposes,
  - indicate in its financial statements that it is not the owner of the Restructuring Property and will disclose the effects of all transactions between the Seller and the Issuer in accordance with generally accepted accounting principles, and
  - not own or purchase any Bonds,
- The Seller agrees that, upon the transfer and sale by the Seller of the Restructuring Property to the Issuer pursuant to the Sale Agreement:
  - to the fullest extent permitted by law, including any applicable Seller regulations, the Issuer will have all of the rights originally held by the Seller with respect to Restructuring Property, including the right (subject to the terms of the Servicing Agreement) to exercise any and all rights and remedies to collect any amounts payable by any Customer in respect of Restructuring Property, notwithstanding any objection or direction to the contrary by the Seller, and
  - any payment by any Customer to the Issuer will discharge that Customer's obligations, if any, in respect of the Restructuring Property to the extent of that payment, notwithstanding any objection or direction to the contrary by the Seller.
- So long as any of the Bonds are outstanding, the Seller will not:
  - make any statement or reference in respect of the Restructuring Property that is inconsistent with the ownership interest thereof by the Issuer (other than for financial, accounting or tax reporting purposes),
  - make any statement or reference in respect of the Restructuring Property that is inconsistent with the ownership thereof by the Issuer (other than for financial, accounting or tax reporting purposes), and
  - take any action in respect of the Restructuring Property except as otherwise contemplated by the Basic Documents.
- The Seller will execute and file the filings required by law to fully preserve, maintain, protect the ownership interest of the Issuer, and the Trustee's lien on the Restructuring Property and the Back-Up Security Interest, including all filings required under the Securitization Law and the Uniform Commercial Code relating to the transfer of the ownership interest in the Restructuring Property by the Seller to the Issuer, the granting of the security interest in the Restructuring Property by the Issuer to the Trustee, and the Back-Up Security Interest, and the continued perfection of such ownership interest, security interest and the Back-Up Security Interest. The Seller will deliver or cause to be delivered to the Trustee (with copies to the Issuer) file-stamped copies of, or filing receipts for any document so filed, as soon as available following such filing. The Seller has agreed to institute any action or Proceeding necessary to compel performance by the Authority or the State of New York of any of their obligations or duties under the Securitization Law or the Financing Order. The Seller also will take those legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar Proceedings, in each case, as may be reasonably necessary (i) to protect the Issuer, the Holders and the Trustee or their respective affiliates, officials, directors, employees and agents from claims, state actions or other actions or Proceedings of third parties which, if successfully pursued, would result in a breach of any representation of the Authority in the Sale Agreement or (ii) to block or overturn any attempts to cause a repeal of,

modification of or supplement to the Securitization Law, the Financing Order, the Issuance Advice Letter, any other adjustment notice or the rights of Holders by executive action, legislative enactment or constitutional amendment that would be adverse to the Issuer, the Trustee or the Holders.

- Even if the Sale Agreement or the Indenture is terminated, the Seller will not, prior to the date which is one year and one day after the termination of the Indenture, petition or otherwise invoke or cause the Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining an involuntary case against the Issuer under any federal or state bankruptcy, insolvency or similar law, appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of the property of the Issuer, or ordering the winding up or liquidation of the affairs of the Issuer.
- So long as any of the Bonds are outstanding, the Seller shall, and shall cause each of its subsidiaries to, pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Restructuring Property unless such tax is being contested and properly reserved.
- So long as any of the Bonds are outstanding, the Seller shall not sell any Restructuring Property to secure another issuance of Bonds if it would cause the then existing ratings on the Bonds from the Rating Agencies to be downgraded, withdrawn or suspended.
- The Seller covenants that with respect to the Series 2013TE Bonds it shall comply with the tax certificates to be executed and delivered by it in connection with the issuance of such Bonds and with letters of instruction, if any, delivered by bond counsel in connection with the issuance of the such Bonds, as such tax certificates and letters may be amended from time to time.

### **Indemnification**

The Seller will indemnify the Issuer, its trustees, officers, employees and agents, the Holders and the Trustee for, and defend and hold harmless each such Person from and against, (i) any and all taxes (other than taxes imposed on the Holders solely as a result of their ownership of Bonds) that may at any time be imposed on or asserted against any such Person under existing law as of the Issuance Date as a result of the sale of Restructuring Property to the Issuer, and (ii) any and all taxes that may be imposed on or asserted against any such Person under existing law as of the Issuance Date as a result of the issuance and sale by the Issuer of the Bonds or the other transactions contemplated by the Sale Agreement, in each case including any sales, gross receipts, general corporation, tangible personal property, privilege or license taxes; provided, however, that the Holders shall be entitled to enforce their rights against the Seller under this indemnification solely through a cause of action brought for their benefit by the Trustee.

In addition, the Seller shall indemnify and hold harmless the Issuer, the Holders, the Trustee and any of the Trustee's affiliates, officials, officers, directors, employees and agents, against any and all Losses incurred by any of such Persons as a result of (i) the Seller's willful misconduct or negligence in the performance of its duties or observance of its covenants under the Sale Agreement or (ii) the Seller's breach in any material respect of any of its representations and warranties contained in the Sale Agreement, except in the case of both clauses (i) and (ii) to the extent of Losses either resulting from the willful misconduct or negligence of such party or resulting from a breach of a representation or warranty made by such party in any of the Basic Documents that gives rise to the Seller's breach; provided, however, that the Holders shall be entitled to enforce their rights under this indemnification against the Seller solely through a cause of action brought for their benefit by the Trustee. The Seller shall not be required to indemnify any person otherwise indemnified under the Sale Agreement for any amount paid or payable by such person in the settlement of any action, proceeding or investigation without the prior written consent of the Seller, which consent shall not be unreasonably withheld.

### **Successors to the Seller**

Any Person which becomes successor by merger, conversion, or consolidation or by otherwise succeeding to all of the assets and properties of the Seller substantially as a whole, may assume the rights and obligations of the Seller under the Sale Agreement. So long as the conditions of any such assumption are met, the Seller will automatically be released from its obligations under the Sale Agreement. The conditions include that:

- the Person in any of the foregoing cases executes an agreement of assumption to perform every obligation of the Seller under the Sale Agreement,
- if the Seller is the Servicer, no Servicer Default, and no event which, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing,
- Officer's Certificates and Opinions of Counsel specified in the Sale Agreement will have been delivered to the Issuer and the Trustee, and
- the Rating Agencies specified in the Sale Agreement will have received prior written notice of the transaction.

### **Amendment**

The Sale Agreement may be amended by the Seller and the Issuer with ten Business Days' prior written notice given to the Rating Agencies, the prior written consent of the Trustee, and if any amendment would adversely affect in any material respect the interests of any Holder, the prior written consent of a majority of the Outstanding Amount of the Bonds affected thereby.

## **THE SERVICING AGREEMENT**

The following summary describes the material terms and provisions of the Servicing Agreement to which the Servicer is undertaking to service the Restructuring Property. This summary does not purport to be complete and is subject to and qualified by reference to the provisions of the Servicing Agreement.

### **General**

Pursuant to the Servicing Agreement, the Servicer is required, among other things, to collect the Restructuring Charges for the benefit and account of the Holders, to make the periodic True-Up Adjustments of the Restructuring Charges required or allowed by the Financing Order, and to account for and remit the Restructuring Charges to or for the account of the Trustee in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction or surcharge of any kind (other than the Servicing Fee specified in the Servicing Agreement). Under the terms of the Servicing Agreement, if the Servicer or any Successor Servicer fails to perform its servicing obligations in any material respect, the Trustee may, or shall, upon the written instruction of the Authority (acting on behalf of Customers) or the Holders of a majority of Outstanding Amount of Bonds, may terminate the rights and obligations of the Servicer under the Servicing Agreement. Upon the termination of the Servicer, the Authority shall appoint, subject to the consent of Holders of a majority of the Outstanding Amount of the Bonds, a Successor Servicer to perform the obligations of the Servicer under the Servicing Agreement. The rights of the Issuer under the Servicing Agreement will be included in the collateral pledged to the Issuer under the Indenture, and these rights will be included in the Collateral.

The obligations to continue to collect and account for Restructuring Charges will be binding upon the Servicer and any other entity that provides transmission and distribution electric services or, in the event that transmission and distribution electric services are not provided by a single entity, any other entity providing electric distribution services to the Customers.

### **Servicing Procedures**

The Servicer, as agent for the Issuer, will manage, service and administer, and bill and collect payments in respect of the Restructuring Charge according to the terms of the Servicing Agreement. The Servicer's duties will include: (i) obtaining meter reads calculating electricity usage, billing the Restructuring Charges and collecting the Restructuring Charges from Customers and third parties, as applicable, (ii) responding to inquiries of Customers, the Authority, third-party entities who bill and collect the charge, or any Governmental Authority regarding the Restructuring Charge, (iii) delivering bills to Customers and third parties, accounting for Charge Collections, investigating and handling delinquencies, processing and depositing collections and making periodic remittances, (iv) furnishing periodic reports and statements to the Issuer, the Authority, the Rating Agencies and to the Trustee, (v) selling, as agent for the Issuer, as its interests may appear, defaulted or written off accounts, and (vi) taking all necessary action in connection with True-Up Adjustments as set forth in the Servicing Agreement.

The Servicer is required to notify the Issuer, the Authority, the Trustee and the Rating Agencies in writing of any laws or regulations promulgated after the execution of the Servicing Agreement that have a material adverse effect on the Servicer's ability to perform its duties under the Servicing Agreement.

In addition, upon the reasonable request of the Issuer, the Authority, the Administrator, the Trustee or any Rating Agency, the Servicer will provide to the Issuer, the Authority, the Administrator, the Trustee or the Rating Agency, public financial information about the Servicer or any material information about the Restructuring Property that is reasonably available, as may be reasonably necessary and permitted by law to enable the Issuer, the Authority, the Administrator, the Trustee or the Rating Agency to monitor the Servicer's performance, and, so long as any Bonds are outstanding, within a reasonable time after written request thereof, any information available to the Servicer or reasonably obtainable by it that is necessary to calculate the Restructuring Charges.

### **Servicing Standards and Covenants**

The Servicing Agreement requires the Servicer to, on behalf of the Issuer (i) manage, service, administer and make collections in respect of the Restructuring Property with reasonable care in material compliance with applicable law, including all regulations applicable to the Authority, using the same degree of care and diligence that the Servicer exercises with respect to billing and collection activities that the Servicer conducts for itself and others, (ii) follow customary standards, policies and procedures in performing its duties as Servicer that are customary in the electric distribution industry, (iii) use all reasonable efforts, consistent with its customary servicing procedures, to enforce and maintain the Issuer's and the Trustee's rights in respect of the Restructuring Property, (iv) calculate Restructuring Charges in compliance with the Securitization Law and the Financing Order, and (v) invoice Customers in accordance with the procedures set forth in the Servicing Agreement. The Servicer shall follow such customary and usual practices and procedures as it shall deem necessary or advisable in its servicing of the Restructuring Property, which, in the Servicer's judgment, may include the taking of legal action pursuant to the Servicing Agreement or otherwise.

The Servicer is responsible for instituting and maintaining any action or proceeding necessary to compel performance by the Authority or the State of New York of any of their obligations or duties under the Securitization Law or the Financing Order with respect to the Restructuring Property, and the Servicer agrees to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, as may be reasonably necessary to block or overturn any attempts to cause a repeal of, modification of or supplement to the Securitization Law or the Financing Order, as the case may be, or the rights of holders of Restructuring Property that would be adverse to Holders. The Servicing Agreement also designates the Servicer as the servicing agent and custodian for the Issuer with respect to the Restructuring Property Documentation.

### **True-Up Adjustment Process**

Among other things, the Servicing Agreement requires the Servicer to calculate and implement the True-Up Adjustments to the Restructuring Charges. These adjustments are to be based on actual Charge Collections and updated assumptions by the Servicer as to projected future Charge Collections, projected uncollectibles and loss in collection of billed charges, and future payments and expenses relating to the Restructuring Property and the Bonds. See "THE FINANCING ORDER–True-Up Adjustment Mechanism."

### **Servicing Compensation**

The Issuer will pay the Servicer a Servicing Fee in exchange for all obligations to be performed by the Servicer under the Servicing Agreement. The annual Servicing Fee for the Bonds payable to LIPA, as the initial Servicer or any Successor Servicer that is affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets, while it is acting as Servicer shall be 0.05% of the aggregate initial principal amount of the Bonds. The annual Servicing Fee for any Successor Servicer that is not affiliated with the owner of the T&D System Assets or not performing similar services for the owner of the T&D System Assets shall be an amount agreed upon by the Issuer and the Successor Servicer, provided that any amount in excess of 0.60% of the initial aggregate principal amount of the Bonds shall be approved by the Authority and the Trustee, and provided, further, that if the Authority fails to approve or disapprove any such Servicing Fee within 30 days following its receipt of a written request to approve the same, the Authority shall be deemed to have approved such Servicing Fee. The Issuer shall also pay all expenses incurred by the Servicer in connection with its activities under the Servicing Agreement (including any fees to and disbursements by accountants, counsel or any other Person, any taxes or payments in lieu of taxes imposed on the Servicer (other than taxes based on the Servicer's net income) and any expenses incurred in connection with reports to Holders, subject to the priorities set forth in the Indenture).

## **Servicer Representations and Warranties**

In the Servicing Agreement, the Servicer will represent and warrant, as of the Issuance Date, among other things, that:

- the Servicer is a corporation, duly organized and is in good standing in the state of its organization, with the requisite corporate or other power and authority to own its properties and to conduct its business as such properties are currently owned and such business is presently conducted by it, and has, the requisite corporate power and authority to service the Restructuring Property and hold the Restructuring Property and the Restructuring Property Documentation as custodian,
- the Servicer is duly qualified to do business and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the Restructuring Property as required by the Servicing Agreement) shall require such qualifications, licenses or approvals (except where the failure to qualify or to obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the Servicer's business, operations, assets, revenues or adversely affect the servicing of the Restructuring Property),
- the Servicer has the requisite corporate power and authority to execute and deliver the Servicing Agreement and carry out the terms of the Servicing Agreement; and the execution, delivery and performance of the terms of the Servicing Agreement have been duly authorized by all necessary corporate action on the part of the Servicer,
- the Servicing Agreement constitutes a legal, valid and binding obligation of the Servicer, enforceable against it in accordance with its terms, subject to applicable insolvency, bankruptcy, receivership, reorganization, moratorium, fraudulent transfer and other laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law,
- the consummation of the transactions contemplated by the Servicing Agreement and the fulfillment of the terms thereof do not conflict with, or result in any breach of any of the terms and provisions of, nor constitute (with or without notice or lapse of time) a default under the organizational documents of the Servicer or any material indenture or other agreement or instrument to which the Servicer is a party or by which it is bound; nor result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument; nor violate any existing law or any existing order, rule or regulation applicable to the Servicer of any federal or state court or regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties,
- no approval, authorization, consent, order or other action of, or filing with, any federal or state court or regulatory body, administrative agency or other governmental instrumentality is required in connection with the execution and delivery by the Servicer of the Servicing Agreement, the performance by the Servicer of the transactions contemplated thereby or the fulfillment by the Servicer of the terms thereof, except those that have been obtained or made and those that the Servicer is required to make in the future,
- there are no Proceedings pending or, to the Servicer's knowledge, threatened, and no investigations pending or threatened, before any federal or state court or regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties involving or relating to the Servicer or, to the Servicer's knowledge, any other Person: (i) asserting the invalidity of the Servicing Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by the Servicing Agreement, or (iii) seeking any determination or ruling that might materially adversely affect the performance by the Servicer of its obligations under, or the validity or enforceability of, the Servicing Agreement, and
- each report and certificate delivered in connection with the Issuance Advice Letter or delivered in connection with any filing made to the Authority by the Servicer with respect to the Restructuring Charges or True-Up Adjustments will constitute a representation and warranty by the Servicer that each such report and certificate, as the case may be, is true and correct in all material respects; but to

the extent any such report or certificate is based in part upon or contains assumptions, forecasts or other predictions of future events, the representation and warranty of the Servicer with respect thereto will be limited to the representation and warranty that such assumptions, forecasts or other predictions of future events are reasonable based upon historical performance (and facts known to the Servicer on the date such report or certificate is delivered).

### **Certificates by Servicer**

*Monthly Servicer Certificates.* On or before the 13th Business Day of each calendar month commencing with April 2014, the Servicer will deliver to the Allocation Agent, the Issuer, the Authority, each Rating Agency and the Trustee a monthly certificate in substantially the form provided in the Servicing Agreement (the “Monthly Servicer Certificate”), stating the amount of Restructuring Charges deposited into the Allocation Account during the preceding calendar month, the estimated amount of Charge Collections transferred to the Collection Account during the preceding calendar month, the amount of any transfers or reductions in respect of Excess Remittances or the Remittance Shortfalls occurring during the preceding calendar month, and the amount of any transfers or reductions in respect of Excess Remittances or Remittance Shortfalls required to occur on any Remittance Date during the current month pursuant to the Servicing Agreement.

*Semi-annual Servicer Certificates.* At least one Business Day before each Payment Date, the Servicer shall provide to the Issuer, the Trustee, each Rating Agency and the Authority, a certificate in substantially the form in the Servicing Agreement (the “Semi-annual Servicer Certificate”) indicating:

1. the amount to be paid to the Holders of each tranche in respect of principal on such Payment Date in accordance with the Indenture,
2. the amount to be paid to the Holders of each tranche in respect of interest on such Payment Date in accordance with the Indenture,
3. the projected bond balance and the bond balance for each tranche as of that Payment Date (after giving effect to the payments on such Payment Date),
4. the amount on deposit in the Reserve Subaccount as of that Payment Date (after giving effect to the transfers to be made from or into the Reserve Subaccount on such Payment Date),
5. the amount, if any, on deposit in the Excess Funds Subaccount as of that Payment Date (after giving effect to the transfers to be made from or into the Excess Funds Subaccount on such Payment Date),
6. the amounts paid to the Trustee since the preceding Payment Date pursuant to the Indenture,
7. the amounts paid to the Servicer since the preceding Payment Date pursuant to the Indenture, and
8. the amount of any other transfers and payments to be made on such Payment Date pursuant to the Indenture.

*Annual Certificates.* The Servicer shall provide the annual compliance certificate required by the Servicing Agreement in substantially the form provided in the Servicing Agreement (the “Servicer Compliance Certificate”).

### **Servicer Will Indemnify Issuer in Limited Circumstances**

The Servicer will indemnify the Issuer and the Trustee (for itself and for on behalf of the Bondholders) and each of their respective trustees, members, managers, officers, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all Losses arising as a result of:

- the Servicer’s willful misconduct or negligence in the performance of its duties or observance of its covenants under the Servicing Agreement or the Servicer’s reckless disregard of its obligations and duties under the Servicing Agreement,
- the Servicer’s breach of any of its representations or warranties under the Servicing Agreement, and
- litigation and related expenses relating to its status and obligations as Servicer.

The Servicer will not be liable, however, for any Losses resulting from the willful misconduct or gross negligence of the party seeking indemnification, or resulting from a breach of a representation or warranty made by any such person in any of the Basic Documents that give rise to the Servicer's breach.

Except to the extent expressly provided for in the Basic Documents (including the Servicer's claims with respect to the Servicing Fees), the Servicing Agreement provides that the Servicer releases and discharges the Issuer (including its trustees, officers, employees and agents, if any), and the Trustee (including its respective officers, directors and agents) from any and all actions, claims and demands which the Servicer may have against those parties relating to the Restructuring Property or the Servicer's activities with respect to the Restructuring Property, other than actions, claims and demands arising from the willful misconduct, bad faith or gross negligence of the parties.

The Servicing Agreement further provides that the Servicer will not be liable to the Issuer or to the Trustee, except as provided under the Servicing Agreement, for taking any action or for refraining from taking any action under the Servicing Agreement or for errors in judgment. However, the Servicer will not be protected against any liability that would otherwise be imposed by reason of willful misconduct, bad faith or negligence in the performance of its duties or by reason of reckless disregard of obligations and duties under the Servicing Agreement. The Servicer and any of its directors, officers, employees or agents may rely in good faith on the advice of counsel reasonably acceptable to the Trustee or on any document submitted by any person respecting any matters under the Servicing Agreement. In addition, the Servicing Agreement provides that the Servicer is under no obligation to appear in, prosecute, or defend any legal action incidental to its duties to service the Restructuring Property in accordance with the Servicing Agreement or related to its obligation to pay indemnification, and that in its reasonable opinion may cause it to incur any expense or liability, except as provided in the Servicing Agreement.

#### **Matters Regarding Servicer**

The Servicing Agreement provides that LIPA may not resign from its obligations and duties as Servicer thereunder, except upon a determination that LIPA's performance of its duties under the Servicing Agreement is no longer permissible under applicable law. No resignation by LIPA as Servicer will become effective until a Successor Servicer has assumed LIPA's servicing obligations and duties under the Servicing Agreement.

Under the circumstances specified in the Servicing Agreement, any Person which becomes the successor by merger, sale, transfer, lease, management contract or otherwise to all or substantially all of the T&D Systems Assets may assume all of the rights and obligations of the Servicer under the Servicing Agreement. The following are conditions to the transfer of the duties and obligations to a Successor Servicer:

- the successor to the Servicer must execute an agreement of assumption to perform every obligation of the Servicer under the Servicing Agreement,
- immediately after the transfer, no representation or warranty made by the Servicer in the Servicing Agreement will have been breached and no Servicer default or event which after notice of, lapse of time or both, would become a Servicer default, has occurred and is continuing,
- the Servicer has delivered to the Issuer and to the Trustee an Officer's Certificate stating that the transfer complies with the Servicing Agreement and all conditions to the transfer under the Servicing Agreement have been complied with,
- the Servicer has delivered to the Issuer and to the Trustee an Opinion of Counsel stating either that all necessary filings to preserve, perfect and maintain the priority of the Issuer's interests in and the Trustee's lien on the Restructuring Property, have been made or that no filings are required to preserve and protect such interests,
- the Servicer has given prior written notice to the Rating Agencies, and
- the Servicer has delivered to the Issuer, the Trustee and the Authority an opinion of independent tax counsel to the effect that, for federal income tax purposes, such transaction will not result in a material federal income tax consequence to the Issuer, the Trustee, or the then existing Holders.

So long as the conditions of any such assumptions are met, then the prior Servicer will automatically be released from its obligations under the Servicing Agreement.



The Servicing Agreement permits the Servicer to contract with a subservicer to perform all or any portion of its obligations. However, the contract must satisfy the Rating Agency Condition and the Servicer must remain obligated and liable to the Issuer, the Trustee and the Bondholders for the servicing and administering of the Restructuring Property in accordance with the Servicing Agreement. The Servicing Agreement provides that the Existing OSA and the Amended OSA, each as amended from time to time, are each deemed to satisfy the Rating Agency Condition.

### **Annual Accountant's Report**

The Servicer shall cause a firm of Independent registered public accountants (which may provide other services to the Servicer or its affiliates) to prepare annually, and the Servicer shall deliver annually to the Issuer, the Trustee, the Rating Agencies and the Authority on or before March 31 of each year, commencing with 2015 to and including the March 31<sup>st</sup> succeeding the Final Maturity Date of the Bonds, a report addressed to the Servicer (the "Annual Accountant's Report"), to the effect that such firm has performed certain procedures, agreed between the Servicer and such accountants, in connection with the Servicer's compliance with its obligations under the Servicing Agreement during the preceding twelve months ended December 31 (or, in the case of the first Annual Accountant's Report to be delivered on or before March 31, 2015, the period of time from the date of the Servicing Agreement until December 31, 2014), identifying the results of such procedures and including any exceptions noted. In the event such accounting firm requires the Trustee or the Issuer to agree or consent to the procedures performed by such firm, the Issuer shall direct the Trustee in writing to so agree; it being understood and agreed that the Trustee will deliver such letter of agreement or consent in conclusive reliance upon the direction of the Issuer, and the Trustee will not make any independent inquiry or investigation as to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such procedures.

The Annual Accountant's Report shall also indicate that the accounting firm providing such report is independent of the Servicer in accordance with the New York Public Authorities Law or the Code of Professional Ethics of the American Institute of Certified Public Accountants, as then in effect.

### **Servicer Defaults and Remedies**

If any one or more of the following events (a "Servicer Default") shall occur and be continuing:

- (a) any failure by the Servicer to cause payments by or on behalf of Customers received by the Servicer from Restructuring Charges to be deposited into the Allocation Account as provided in the Servicing Agreement or any failure to cause the Allocation Agent to transfer to the Trustee any required remittance and cause other amounts received from Collateral to be deposited to the Collection Account pursuant to the Servicing Agreement that shall continue unremedied for a period of 5 Business Days after written notice of such failure is received by the Servicer from the Issuer or the Trustee,
- (b) any failure on the part of the Servicer duly to observe or to perform in any material respect any covenants or agreements of the Servicer set forth in the Servicing Agreement, which failure (i) materially and adversely affects the Restructuring Property or the rights of the Holders and (ii) continues unremedied for a period of 60 days after the date on which (A) written notice of such failure shall have been given to the Servicer by the Issuer, the Authority, the Allocation Agent, the Administrator, or the Trustee, or (B) after discovery of such failure by an officer of the Servicer,
- (c) any representation or warranty made by the Servicer in the Servicing Agreement proves to have been incorrect when made, which has a material adverse effect on the Issuer or the Holders and which material adverse effect continues unremedied for a period of 60 days after the date on which (A) written notice thereof shall have been delivered to the Servicer by the Issuer, or the Authority, or the Trustee, or (B) after discovery of such failure by an officer of the Servicer, as the case may be, or
- (d) an Insolvency Event occurs with respect to the Servicer;

then, and in each and every case, so long as the Servicer Default shall not have been remedied, either the Trustee may, or shall upon the instruction of the Authority (acting on behalf of Customers) or the Holders of a majority of the outstanding principal amount of the Bonds, by notice then given in writing to the Servicer (and to the Trustee if given by the Holders) (a "Termination Notice"), may terminate all the rights and obligations (other than the indemnity obligations and the obligation to continue performing its functions as Servicer until a Successor Servicer

is appointed) of the Servicer under the Servicing Agreement. In addition, upon a Servicer Default, any interested person shall be entitled to apply to any court in New York for sequestration and payment of revenues arising with respect to the Restructuring Property. On or after the receipt by the Servicer of a Termination Notice, all authority and power of the Servicer under the Servicing Agreement, whether with respect to the Restructuring Property, the Restructuring Charge, or otherwise, shall, upon appointment of a Successor Servicer pursuant to the Servicing Agreement, without further action, pass to and be vested in such Successor Servicer; and, without limitation, the Trustee is thereby authorized and empowered to execute and deliver, on behalf of the predecessor Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such Termination Notice, whether to complete the transfer of the Restructuring Property Documentation and related documents, or otherwise. The predecessor Servicer shall cooperate with the Successor Servicer, the Issuer, the Allocation Agent and the Trustee in effecting the termination of the responsibilities and rights of the predecessor Servicer under the Servicing Agreement, including the transfer to the Successor Servicer for administration by it of all cash amounts that shall at the time be held by the predecessor Servicer for remittance, or shall thereafter be received by it with respect to the Restructuring Property or the Restructuring Charge. As soon as practicable after receipt by the Servicer of such Termination Notice, the Servicer shall deliver the Restructuring Property Documentation to the Successor Servicer. All reasonable costs and expenses (including attorneys' fees and expenses) incurred in connection with transferring the Restructuring Property Documentation to the Successor Servicer and amending the Servicing Agreement to reflect such succession as Servicer pursuant to the Servicing Agreement shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses.

*Successor Servicer.* Upon the Servicer's receipt of a Termination Notice or the Servicer's resignation or removal in accordance with the terms of the Servicing Agreement, the predecessor Servicer shall continue to perform its functions as Servicer and shall be entitled to receive the requisite portion of the Servicing Fee and reimbursement of expenses, until a Successor Servicer shall have assumed in writing the obligations of the Servicer. In the event of the Servicer's removal or resignation, and upon application of the Trustee, the Authority will appoint a Successor Servicer. Any appointment of a Successor Servicer requires the consent of the Holders of a majority of the outstanding principal amount of the Bonds, and the Successor Servicer shall accept its appointment by a written assumption in a form reasonably acceptable to the Issuer and the Trustee. If within 30 days after the delivery of the Termination Notice, a new Servicer has not been appointed and accepted such appointment, the Trustee may petition the Authority or a court of competent jurisdiction to appoint a Successor Servicer. A Person shall qualify as a Successor Servicer only if (i) such Person is permitted under the Securitization Law, the regulations of the Authority, the Financing Order and the Servicing Agreement to perform the duties of the Servicer, (ii) the Rating Agency Condition shall have been satisfied, and (iii) such Person enters into a servicing agreement with the Issuer having substantially the same provisions as the Servicing Agreement.

Upon appointment, the Successor Servicer shall be the successor in all respects to the predecessor Servicer and shall be subject to all the responsibilities, duties and liabilities arising thereafter relating thereto placed on the predecessor Servicer and shall be entitled to the Servicing Fee and all the rights granted to the predecessor Servicer by the Servicing Agreement.

The Successor Servicer may resign only if it is prohibited from serving as such by applicable law.

*Waiver of Past Defaults.* The Trustee, with the consent of the Authority and the Holders of the majority of the outstanding principal amount of the Bonds, on behalf of all Holders, may waive in writing any default by the Servicer in the performance of its obligations except a default in making any required deposits to the Allocation Account in accordance with the Servicing Agreement. The Servicer is required to provide notice of any such waivers to each Rating Agency, promptly after its receipt thereof from the Trustee. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of the Servicing Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto.

*Notice of Servicer Default.* The Servicer shall deliver to the Issuer, the Authority, the Administrator, the Trustee, the Allocation Agent and the Rating Agencies, promptly after having obtained knowledge thereof, but in no event later than 5 Business Days thereafter, written notice in an Officer's Certificate of any event which with the giving of notice or lapse of time, or both, would become a Servicer Default under the Servicing Agreement.

*Amendment to Servicing Agreement.* The Servicing Agreement may be amended by the Servicer and the Issuer, with the consent of the Trustee and the satisfaction of the Rating Agency Condition. Promptly after the

execution of any such amendment or consent, the Issuer shall furnish written notification of the substance of such amendment or consent to each of the Rating Agencies.

Prior to the execution of any amendment to the Servicing Agreement, the Issuer and the Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by the Servicing Agreement and the Opinion of Counsel referred to in the Servicing Agreement. The Issuer and the Trustee may, but shall not be obligated to, enter into any such amendment which affects their own rights, duties or immunities under the Servicing Agreement or otherwise.

To amend or modify the Servicing Agreement, the following conditions must be met:

- (a) At least fifteen days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals described above (except that the consent of the Trustee may be subject to the consent of the Holders if such consent is required or sought by the Trustee in connection with such amendment or modification), the Servicer shall have delivered to the Authority written notification of any proposed amendment,
- (b) If the Authority, within fifteen days (subject to extension as provided in clause (c) below) of receiving a notification complying with the necessary approvals as described above, delivers to the office of the person to whom responses are to be delivered a written statement that the Authority might object to the proposed amendment or modification, then such proposed amendment or modification shall not be effective unless and until the Authority subsequently delivers a written statement that it does not object to the proposed amendment or modification,
- (c) If the Authority, within fifteen days of receiving a notification complying with the necessary approvals described above, delivers to the office of the person to whom responses are to be delivered a written statement requesting additional time (up to thirty days) in which to consider the proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within the extended period, the Authority delivers to the office of the person to whom responses are to be delivered a written statement that it does not object to the proposed amendment or modification,
- (d) If the Authority has not delivered written notice that the Authority might object to the proposed amendment or modification within the relevant time period described above, then the Authority shall be deemed not to have any objection and such amendment or modification may become effective upon satisfaction of the other conditions specified above, and
- (e) Following the delivery of a notice to the Authority by the Servicer under clause (b) above, the Servicer and the Issuer shall have the right at any time to withdraw any proposed amendment from consideration.

The Servicer may, with the prior written consent of the Authority, amend the billing procedures in Annex 2 to the Servicing Agreement in writing with prior written notice given to the Trustee, the Issuer and the Rating Agencies, but without the consent of the Trustee, the Issuer, any Rating Agency or any Holder, solely to address changes to the Servicer's method of calculating the Restructuring Charges as a result of changes to the Servicer's (or its subservicer's) current computerized customer information system, including changes which would replace the remittances contemplated by the estimation procedures set forth in Annex 2 with remittances of Charge Collections determined to have been actually received; provided that any such amendment shall not have a material adverse effect on the Holders.

The Servicer shall promptly provide each of the Rating Agencies and the Authority with a copy of any amendment to the Servicing Agreement.

*Cooperation with Successor.* The Servicer will, on an ongoing basis, cooperate with the Successor Servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the Successor Servicer in performing its obligations under the Servicing Agreement.

## ADMINISTRATION AGREEMENT

### Duties of the Administrator

To the extent not required to be performed by the Servicer, the Administrator shall perform the Issuer's obligations under each of the Basic Documents and shall prepare or cause any and all documents, reports, filings, instruments, notices, certificates and opinions to be prepared on behalf of the Issuer. These obligations include:

- (a) confirmation that any non-responding Rating Agency has received the Rating Agency Condition request and request the related Rating Agency Condition confirmation,
- (b) the preparation of or obtaining of the documents required for the authentication of the Bonds and delivery of the same to the Trustee and such other actions on behalf of the Issuer as are necessary for the issuance and delivery of the Bonds,
- (c) causing a Bond Register to be kept and to give the Trustee notice of any changes to the Bond Register,
- (d) the fixing of any special record date and the notification of Holders of any special record dates, Payment Dates and the amount of defaulted interest to be paid, if any,
- (e) advising the Trustee of an election to terminate the book-entry system through a Clearing Agency with respect to the Bonds,
- (f) maintenance of an office or agency in the Borough of Manhattan, the City of New York, New York where Bonds may be surrendered for registration of transfer or exchange, which may be the Trustee,
- (g) causing any newly appointed Paying Agents to deliver to the Trustee instruments regarding funds held in trust,
- (h) directing the Paying Agents to pay to the Trustee all sums held in trust by such Paying Agents,
- (i) preparing all supplements and amendments to the Indenture, filings pursuant to the Securitization Law or the Financing Order, instruments of further assurance and other instruments, in accordance with the Indenture, necessary to protect the Collateral,
- (j) identifying to the Trustee in an Officer's Certificate any Person that the Issuer has contracted to perform its duties under the Indenture,
- (k) delivering a notice to the Trustee and the Rating Agencies of each Event of Default under the Administration Agreement and each default by the Servicer or Seller of its obligations under the Servicing Agreement or the Sale Agreement, respectively,
- (l) notifying the Trustee and the Authority of the appointment of any Successor Servicer,
- (m) preparing and filing of all documents required under the Securitization Law relating to the transfer of the ownership or security interest in the Restructuring Property,
- (n) preparing the Officer's Certificate and Independent Certificate relating to the satisfaction and discharge of the Indenture or a Legal Defeasance under the Indenture,
- (o) sending a copy of each certificate of compliance delivered to it pursuant to the Servicing Agreement and Annual Accountant's Report delivered to it pursuant to the Servicing Agreement to the Trustee, the Holders and the Rating Agencies and to the Servicer,
- (p) notifying the Trustee of each Record Date and the names and addresses of Holders during any period when the Trustee is not the Registrar,
- (q) the opening of one or more segregated trust accounts in the Trustee's name, the preparation of orders, and the obtaining of Opinions of Counsel and the taking of all other actions necessary with respect to investment and reinvestment of funds in the Collection Account including transfer of the Collection Account to an Eligible Institution if it ceases to be maintained at an Eligible Institution,

- (r) preparing, obtaining or filing of the instruments, opinions and certificates and other documents required for the release of Collateral,
- (s) appointing Independent registered public accountants for purposes of preparing and delivering the reports or certificates required by the Indenture and, upon any resignation by such firm, providing written notice thereof to the Trustee and promptly appointing a successor thereto that shall also be a firm of Independent registered public accountants,
- (t) preparing the Issuer orders and the obtaining of Officer's Certificates with respect to the execution of supplemental bond indentures,
- (u) the preparation of new Bonds conforming to any supplemental bond indenture,
- (v) in the case of any redemption of Bonds at the direction of the Issuer, giving written notice to the Trustee of the Issuer's direction to redeem such Bonds,
- (w) notifying the Trustee of any notice received by the Issuer from the Holders, and
- (x) interacting with the Allocation Agent with respect to Excess Remittances and Remittance Shortfalls.

The Administrator shall also furnish the Issuer with ordinary clerical, bookkeeping and other administrative services necessary and appropriate for the Issuer.

In addition to the duties of the Administrator described above, the Administrator shall undertake such other administrative services as may be appropriate, necessary or requested by the Issuer and provide such other services as are incidental to those set forth above or in this paragraph or as the Issuer and Administrator may agree. As part of its administrative services, the Administrator shall obtain and maintain a directors and officers insurance policy covering the trustees of the Issuer (which policy may cover the officers of the Bond Issuer as well), and the Administrator shall pay the premiums therefor as a reimbursable expense under the Administration Agreement to the extent there are insufficient funds on deposit in the Collection Account to pay such premiums when due in accordance with the priorities specified in the Indenture. The Administrator shall not take any non-ministerial action unless the Administrator notifies the Issuer of the proposed action and the Issuer consents to such action.

### **Administrator Compensation**

The Administration Agreement provides that the Administrator shall be entitled to an annual fee (the "Administration Fee") of \$100,000 in equal semi-annual installments on each Payment Date.

The Issuer will also reimburse the Administrator for all filing fees and expenses, legal fees, fees of outside auditors and other out-of-pocket expenses incurred by the Administrator in the course of performing its duties thereunder. The Administrator's compensation and other expenses payable thereunder shall be paid from the Collection Account in accordance with the Collection Account priorities as stated in the Indenture, and the Administrator shall have no recourse against the Issuer for payment of such amounts other than in accordance with the Collection Account priorities as stated in the Indenture.

### **Resignation and Removal of the Administrator**

The Administrator may resign its duties thereunder by providing the Issuer with at least sixty days' prior written notice. The Issuer may remove the Administrator without cause by providing the Administrator with at least sixty days' written notice. At the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator if the Administrator is in default of the performance of its duties under the Administration Agreement and such default is not cured in accordance with the Administration Agreement, or is party to a voluntary or involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs.

No resignation or removal of the Administrator shall be effective until a successor Administrator shall have been appointed by the Issuer and shall have agreed in writing to be bound by the terms of the Administration Agreement. The appointment of any successor Administrator shall be effective only after the satisfaction of the Rating Agency Condition with respect to the proposed appointment.

Promptly upon the effective date of its resignation or removal, the Administrator shall be entitled to be paid all fees accrued to it and expenses accrued by it in performance of its duties thereunder through the date of such resignation or removal and to the extent permitted under the Administration Agreement.

### **Amendment of the Administration Agreement**

The Administration Agreement may be amended in writing by the Administrator and the Issuer with the written consent of the Trustee, but without the consent of any of the Holders, to cure any ambiguity, to correct or supplement any provisions in the Administration Agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the Administration Agreement or of modifying in any manner the rights of the Holders; provided, that such action shall not, as evidenced by an Officer's Certificate delivered to the Trustee, adversely affect in any material respect the interests of any Holder.

The Administration Agreement may also be amended in writing from time to time by the Administrator and the Issuer with the written consent of the Trustee and, subject to the paragraph directly above, the written consent of the Holders evidencing a majority of the Outstanding Amount of the Bonds of all Series, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Administration Agreement or of modifying in any manner the rights of the Holders; provided, however, that no such amendment shall increase, reduce, accelerate or delay the timing of Charge Collections without the consent of the Holders of all the outstanding Bonds.

### **Indemnification by the Administrator**

The Administrator shall indemnify the Issuer, the Trustee and their respective trustees, officers, officials, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all Losses as a result of the Administrator's willful misconduct or negligence in the performance of its duties or observance of its covenants arising out of the Agreement.

The indemnification obligations of the Administrator under the Administration Agreement shall survive the termination of the Administrator Agreement and the resignation or removal of the Trustee.

### **Administrator's Liability**

Except as provided in the Administration Agreement, the Administrator does not assume any liability other than to render or stand ready to render the services called for in the Administration Agreement and neither the Administrator nor any of its directors, officers, employees, subsidiaries or affiliates shall be responsible for any action of the Issuer or any of the trustees, officers, employees, subsidiaries or affiliates of the Issuer (other than the Administrator itself).

## **AFFILIATIONS AND CERTAIN RELATIONSHIPS**

Each of the Authority and LIPA may maintain banking relationships in the ordinary course with The Bank of New York Mellon.

## **RISK FACTORS**

*Please carefully consider all the information included in this Official Statement, including the risks described below before deciding to invest in the Bonds.*

### **Servicing and Operating Risks**

*Repayment of the Bonds Depends on Performance of LIPA and PSEG-LI or any Successors*

As Servicer, LIPA will be responsible for monitoring the Collateral, taking all necessary action in connection with True-Up Adjustments and certain reporting requirements. In its role as T&D System manager under the OSA, PSEG-LI will be responsible for performing a number of functions that would otherwise be provided by the Servicer including, among other things, billing and collecting the Restructuring Charges from Customers, meter reading and forecasting. The Trustee's receipt of Charge Collections, which will be used to make payments on the Bonds, will depend in part on the skill and diligence of PSEG-LI and LIPA or any successors in performing these functions.

The transition from National Grid to PSEG-LI has been ongoing since the execution of the Existing OSA and the TSA, and PSEG-LI will begin as T&D System manager under the OSA effective January 1, 2014. In the event that unforeseen issues arise in connection with the transition that impact PSEG-LI's ability to perform billing

and collection, meter reading or forecasting functions or otherwise negatively impact its ability to collect the Restructuring Charges, then it is possible that payments on the Bonds might be delayed or reduced. As described above under “SERVICER AND ADMINISTRATOR—General Status of Transition,” based on the substantial amount of work being done in connection with the transition, the Authority believes that the transition is currently proceeding in substantial accordance with the TSA.

The Existing OSA expires on December 31, 2023 and the Amended OSA expires on December 31, 2025 (assuming a January 1, 2014 effective date), each of which is prior to the Final Maturity Date for certain of the Bonds. In addition, each OSA is subject to early termination. See “SERVICER AND ADMINISTRATOR—The Existing OSA” and “—The LIPA Reform Act and the Amended OSA.”

If PSEG-LI ceases to perform the billing and collection functions on behalf of the Servicer pursuant to the terms of the OSA, it might be difficult to find a replacement T&D System manager or a Successor Servicer. Also, any Successor Servicer (or T&D System manager performing servicing functions) might have less experience and ability than PSEG-LI and might experience difficulties in collecting Restructuring Charges, in determining appropriate adjustments to the Restructuring Charges, and billing and/or payment arrangements may change, resulting in delays or disruptions of Charge Collections. A Successor Servicer might charge fees that, while permitted under the Financing Order, are substantially higher than the fees paid to LIPA as the initial Servicer. In the event of the commencement of a case by or against the Servicer or PSEG-LI under the United States Bankruptcy Code or similar laws, the Servicer and the Trustee might be prevented from effecting a transfer of servicing due to operation of the Bankruptcy Code. Any of these factors and others might delay the timing of payments and may reduce the value of the Bonds.

If LIPA or any successor, or PSEG-LI or any successor, fails to make sufficient Charge Collections for any reason, then the Servicer’s payments to the Trustee in respect of the Restructuring Charges might be delayed or reduced. In that event, payments on the Bonds might be delayed or reduced. In addition, the successor owner of all or substantially all, or part, of the T&D System Assets of LIPA serving its Customers may assume the role of Servicer, subject only to the satisfaction of the conditions set forth in the Servicing Agreement. These conditions do not include either Holder consent or, so long as the successor entity assumes the ownership of all of the distribution system business assets of LIPA serving its Customers, satisfaction of the Rating Agency Condition.

Failure by the Authority and PSEG-LI or a successor to undertake programs intended to maintain and/or improve the T&D System Assets could induce Customers to reduce or avoid Restructuring Charges by seeking alternatives to purchasing electricity through LIPA’s T&D System Assets. That may reduce the total number of Customers paying the Restructuring Charges and change the relative amounts of Restructuring Charges on such Customers, all of which would increase the amount and share of Restructuring Charges billed to the remaining Customers. Such increase may reduce the collectability of the Restructuring Charges.

*Inaccurate Consumption Forecasting or Unanticipated Delinquencies or Charge-offs Might Reduce Scheduled Payments on the Bonds*

The Restructuring Charges are calculated based upon forecasted Customer usage, including the effect of delinquencies and charge offs. Under the OSA, PSEG-LI will do the forecasting of electricity consumption. The amount and the rate of Charge Collections will depend in part on actual electricity usage and the amount of collections and write-offs for each rate class. If PSEG-LI or a successor inaccurately forecasts electricity consumption or uses inaccurate Customer delinquency or charge-off data when setting or adjusting the Restructuring Charges, there could be a shortfall or material delay in Charge Collections, which might result in missed or delayed payments of principal and interest and lengthened weighted average lives of the Bonds. See “THE FINANCING ORDER—True-Up Adjustment Mechanism” and “THE SERVICING AGREEMENT — True-Up Adjustment Process.”

The Servicer’s use of inaccurate delinquency or charge-off rates might result also from, among other things, unexpected deterioration of the economy or changes to law and regulations governing the termination of electric service to Customers in the event of extreme weather, either of which could cause greater delinquencies or charge-offs than expected or force LIPA to grant additional payment relief to more Customers; or the introduction into New York of alternative electricity suppliers who collect the Restructuring Charges from the Customers, but who may fail to remit Customer charges to the Servicer in a timely manner; or the failure of alternative electricity suppliers to submit accurate and timely information to the Servicer regarding their collections and charge-offs; or any other unanticipated change in law that makes it more difficult for LIPA to terminate service to nonpaying Customers or

that requires LIPA to apply more lenient credit standards in accepting Customers. See “THE SERVICER AND ADMINISTRATOR – Billing and Collection Policies.”

*Changes to Billing and Collection Practices May Reduce the Amount of Funds Available for Payments on the Bonds*

The methodology of determining the amount of the Restructuring Charge billed to each Customer is specified in the Financing Order. Neither LIPA, nor PSEG-LI as it performs its billing and collection functions on LIPA’s behalf, may change this methodology. However, subject to applicable law, tariff and regulatory requirements, billing and collection arrangements with each Customer may be changed in a manner that delays or reduces the Servicer’s payments to the Trustee in respect of the Restructuring Charges. For example, to recover part of an outstanding electricity bill, LIPA may agree to extend a Customer’s payment schedule or to write off the remaining portion of the bill. In that event, collection of Restructuring Charges may be delayed or reduced until an adjustment is made. See “SERVICER AND ADMINISTRATOR—Billing and Collection Policies.”

*Limits on Rights to Terminate Service to Customers Might Make it More Difficult to Collect the Restructuring Charges*

To the extent that Customers do not pay for their electric service, LIPA will not be able to collect Restructuring Charges from these Customers. HEFPA provides some limitations on the Authority’s right to terminate service of Customers who fail to pay their bills. Historical rates of non-payment are included in the calculations of the Restructuring Charges, but increases in the rates of non-payment would reduce the Charge Collections of Restructuring Charges until such Restructuring Charges are adjusted.

*The Servicer’s Indemnification Obligations Under the Servicing Agreement are Limited and Might Not Be Sufficient to Protect the Investments in the Bonds*

The Servicer is obligated under the Servicing Agreement to indemnify the Issuer and the Trustee (for itself and on behalf of the Holders) only in limited circumstances. See “THE SERVICING AGREEMENT—Servicer Will Indemnify Issuer in Limited Circumstances.” Neither the Trustee nor the Holders will have the right to accelerate payments on the Bonds as a result of a breach under the Servicing Agreement, absent an event of default under the Indenture as described in “THE INDENTURE—Events of Default.” If the Servicer incurs indemnification obligations, it is not clear where such obligations would rank with other Servicer obligations. Furthermore, the Servicer might not have sufficient funds available to satisfy its indemnification obligations under the Servicing Agreement. The Servicer would get funds to pay indemnification obligations from the T&D System rates and other charges. In the event of substantial Servicer indemnification obligations, payments on the Bonds might be delayed or reduced.

*Delinquent or Partial Payments of Customer Bills May Make Principal Payments on the Bonds Occur Later than Expected*

The amount and the rate of collection of the Restructuring Charges, together with the related Restructuring Charge adjustments, will impact whether there is a delay in the scheduled repayments of Bond principal. If the Restructuring Charges are collected at a slower rate than expected, the Servicer might have to request adjustments of the Restructuring Charges. If those adjustments are not timely and accurate, there may be a delay in payments of principal and interest and a decrease in the value of the Bonds.

*Storm Damage to LIPA’s New York Operations Could Impair Payment of the Bonds*

The Service Area experiences seasonal conditions typical of the northeast United States. Summers are usually hot with high temperatures in excess of 90°F. Winters include snow and icing conditions that can be damaging to overhead power lines. In addition, the Service Area experiences severe storms, including hurricanes, which can be particularly damaging due to Long Island’s coastal location. LIPA’s operations were impacted by Super Storm Sandy in 2012, disrupting LIPA’s operations and depleting its storm reserve. Future storms could have similar or more drastic effects. Transmission and/or distribution and generation facilities could be damaged or destroyed and usage of electricity could be interrupted temporarily, reducing the Charge Collections. There could be longer-lasting weather-related adverse effects on residential and commercial development and economic activity among the Customers, which could cause the Restructuring Charge to be greater than expected as a percentage of Base Rate Revenues. Legislative action adverse to the Holders might be taken in response, and such legislation, if challenged as violative of the State Pledge, might be defended on the basis of public necessity.



## **Customer and Delivery Related Risks**

### *Alternatives to Purchasing Electricity Through LIPA's Distribution Facilities or Technological Change Might Make Substitute Energy Sources More Attractive in the Future, and Effect of Net Metering*

Technological developments might result in the introduction of economically attractive alternatives to purchasing electricity through LIPA's T&D System Assets for increasing numbers of Customers. Manufacturers of self-generation facilities may develop smaller-scale, more fuel-efficient and/or more environmentally friendly generating units that can be cost-effective sources of energy for a greater number of Customers. Self-generation is most attractive to Customers who are high load factor energy users, such as hospitals, or manufacturers with multiple shift operations. Currently, there are few such Customers of significant size in the Service Area.

Based on current assumptions about fuel supply and transportation conditions, anticipated LIPA back-up power supply rates, and other assumptions, the estimated cost of self-generation for these Customers, combined with the practical obstacles to installing on-site generation, is expected to preclude self-generation (and disconnection with the T&D System) from being installed by any meaningful number of residential and commercial Customers within the Service Area.

However, over time, technological developments might allow greater numbers of Customers to reduce or avoid Restructuring Charges, which may reduce the total number of Customers paying the Restructuring Charges and change the relative amounts of Restructuring Charges on such Customers, all of which would increase the amount and share of Restructuring Charges billed to the remaining Customers. Such increase may reduce the collectability of the Restructuring Charges.

LIPA's tariff provides for net metering of certain residential and nonresidential customer-generators of renewable power, such as solar, wind, farm waste, micro-combined heat and power, fuel cells, micro-hydroelectric and hybrids. See "THE FINANCING ORDER – Collection of Restructuring Charges; Nonbypassability." Subject to the limitations imposed by the Securitization Law (including the State Pledge) and other applicable law, the Authority may from time to time increase the net billing limitation or make other changes to its tariff that could result in an increase in the amount of the Restructuring Charges that would have to be billed per kilowatt hour. Over time, net metering could reduce the total number of Customers paying the Restructuring Charges and change the relative amounts of Restructuring Charges on such Customers, all of which would increase the amount and share of Restructuring Charges billed to the remaining Customers. Such increase may reduce the collectability of the Restructuring Charges.

## **Judicial, Legislative or Regulatory Risks**

### *Future Legislative Action to Change the Securitization Law Could Reduce the Value of the Bonds*

New York does not have a referendum or initiative process by which the Securitization Law may be challenged. Therefore, the only way for the Securitization Law to be changed would be through a legislative action which would be subject to the State Pledge. Constitutional protections against actions that violate the State Pledge should apply to legislation that is passed by the New York State legislature. However, to date, no federal or New York cases addressing the repeal or amendment of securitization provisions such as those contained in the Securitization Law have been decided; consequently, no judicial precedent is directly on point.

There have been cases in which federal courts have applied the Contract Clause of the United States Constitution to strike down legislation regarding similar or analogous matters, such as legislation reducing or eliminating taxes, public charges or other sources of revenues which support bonds issued by public instrumentalities or private issuers, or which otherwise reduces or eliminates the security for bonds. Based upon this case law, Morgan, Lewis & Bockius LLP, expects to deliver an opinion in connection with the closing of the offering of the Bonds to the effect that the Holders (or the Trustee acting on their behalf) could successfully challenge under the Contract Clause of the United States Constitution the constitutionality of any repeal or amendment of the Securitization Law or any other action or failure to take any action required by the State Pledge that limits, alters or reduces the value of the Restructuring Property or the Charges prior to the time that the Bonds are fully paid and discharged, unless such action is necessary to further a significant and legitimate public purpose.

It may be possible for the New York legislature to repeal or amend the Securitization Act, or for the Authority to amend or revoke the Financing Order, notwithstanding the State Pledge if the legislature or the Authority acts in order to serve a significant and legitimate public purpose, such as protecting the public health and safety or responding to a national or regional catastrophe affecting the Service Area, or if the legislature otherwise

acts in the valid exercise of the State's police power. Any such action, as well as the litigation that likely would ensure, might adversely affect the price and liquidity, the dates of payment of interest and principal and the weighted average lives of the Bonds. Moreover, the outcome of any litigation cannot be predicted. Accordingly, the Holders might incur a loss on or delay in recovery of their investment in the Bonds.

In addition, any action of the New York legislature adversely affecting the Restructuring Property or the ability to impose, charge or collect Charges may be considered a "taking" under the United States or New York Constitutions. Morgan, Lewis & Bockius LLP and Hawkins Delafield & Wood LLP expect to render opinions in connection with the closing of the offering of the Bonds to the effect that, under the federal and New York Constitutions, respectively, assuming the applicable court determines that the Takings Clause and not the Contract Clause applies, the State would be required to pay just compensation to the Holders if the State undertook a repeal or amendment of the Securitization Law or took any other action or failed to take any action required by the State Pledge after the Bonds are issued but before they are fully paid that (i) constituted a permanent appropriation of a substantial property interest of the Holders in the Restructuring Property or denied all economically beneficial or productive use of the Restructuring Property, (ii) destroyed the Restructuring Property, other than in response to so-called emergency conditions, or (iii) substantially reduced, altered or impaired the value of the Restructuring Property so as to unduly interfere with the reasonable expectations of the Holders arising from their investment in the Bonds. In examining whether action of the New York legislature amounts to a regulatory taking, both federal and New York State courts will consider the character of the governmental action, the economic impact of the governmental action on the Holders, and the extent to which the governmental action interferes with reasonable investment-backed expectations. There can be no assurance, however, that any award of compensation would be sufficient to pay the full amount of principal of and interest on the Bonds.

The Takings Clauses do not preclude any limitation or alteration of the Securitization Law or the Financing Order if just compensation is made by law for the protection of the Restructuring Charges collected pursuant to the Financing Order and of the Holders. It is unclear what "just compensation" would be afforded to Holders by the State if such limitation or alteration were attempted. Accordingly, no assurance can be given that any such provision would not adversely affect the market value of the Bonds, or the timing or receipt of payments with respect to the Bonds.

The foregoing opinions note that issues relating to the Contract and Takings Clauses of the United States and New York Constitutions are essentially decided on a case by case basis and that the courts' determinations, in most cases, appear to be strongly influenced by the facts and circumstances of the particular case. The opinions described above will be subject to the qualifications included in them. The degree of impairment necessary to meet the standards for relief under a Takings Clause analysis or Contract Clause analysis could be substantially in excess of what a Bondholder would consider material. Forms of such opinions are included as Appendix C and Appendix D to this Official Statement.

In addition, the enforcement of any rights against the State under the State Pledge may be subject to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against state and local governmental entities in New York. These limitations might include, for example, the necessity to exhaust administrative remedies prior to bringing suit in a court, or limitations on type and locations of courts in which the State may be sued.

#### *Future Judicial Action Could Reduce the Value of the Holder's Investment in the Bonds*

The Restructuring Property is the creation of the Securitization Law and the Financing Order. There is uncertainty associated with investing in bonds payable from an asset that depends for its existence on legislation because there is limited juridical or regulatory experience implementing and interpreting the legislation. Because the Restructuring Property is a creation of the Securitization Law, any judicial determination affecting the validity of or interpreting the Securitization Law, the Restructuring Property or the Customer's ability to make payments securing the Bonds might have an adverse effect on the Bonds.

Other states have passed securitization laws, and some of these laws have been challenged by judicial actions. To date, none of these challenges has succeeded, but future judicial challenges might be made. An unfavorable decision regarding another state's securitization law would not automatically invalidate the Securitization Law or the Financing Order, but, whether or not the statute was specifically tailored to a public entity issuer, such an unfavorable decision might provoke a challenge to the Securitization Law, establish a legal precedent for a successful challenge to the Securitization Law or heighten awareness of the political and other risks of the

Bonds, and in that way may limit the liquidity and value of the Bonds. Therefore, legal activity in other states may indirectly affect the value of a Holder's investment in the Bonds.

*The Issuer Will Not be in Breach of Any Representation or Warranty as a Result of a Change in Law*

The Issuer will not be in breach of any representation or warranty as a result of a change in the law by means of a legislative enactment or constitutional amendment. The Seller will not agree in the Sale Agreement and the initial Servicer and any Successor Servicer will not agree in its Servicing Agreement to institute any action or Proceeding to block or overturn any attempts to cause a repeal, modification or supplement to the Securitization Law that would be adverse to the Issuer, Trustee or Holder. See "THE SALE AGREEMENT—Covenants of the Seller" and "THE SERVICING AGREEMENT—Servicing Procedures." In addition, there are no assurances that if either the Seller or Servicer choose to take such an action, any such action would be successful.

*The Issuer is Not Obligated to Indemnify the Holders for Changes in Law*

Neither the Issuer, the Authority nor the Servicer will indemnify the Holders for any changes in the law, including any federal preemption or repeal or amendment of the Securitization Law, that may affect the value of the Bonds. Pursuant to the Servicing Agreement, at the request of the Trustee, the Servicer shall take such legal or administrative actions, including without limitation defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar Proceedings, as may be reasonably necessary to block or overturn any attempts to cause a repeal of, modification of or supplement to the Securitization Law or the Financing Order, or the Issuance Advice Letter that would be materially adverse to the Trustee or the Holders. However, there are no assurances that the Servicer would be able to take this action or that any such action would be successful.

*Challenges to the Transaction*

While the time for filing any challenges to the LIPA Reform Act expired and no such challenges were filed, it is possible that interested parties may still seek to find some basis to challenge the LIPA Reform Act, the issuance of the Bonds or specific aspects of the transaction. For example, notwithstanding that (a) the Financing Order contains a conclusion of law that the Restructuring Charges are "transition charges" as defined in the General Resolution and that they are not subject to the lien thereof, (b) Hawkins Delafield & Wood LLP expects to render an opinion in connection with the issuance of the Bonds to the effect that the Restructuring Charges are not subject to the lien of the General Resolution or the Subordinated General Resolution, and (c) the Authority will make a representation in the Sale Agreement to the effect that it is transferring the Restructuring Property free of any Liens, it is possible that holders of bonds issued by the Authority or other creditors or stakeholders may nonetheless attempt to assert that the Restructuring Charges are subject to the lien of the General Resolution or the Subordinated General Resolution. Any litigation making such assertion could affect the market price of the Bonds.

## **Bankruptcy-Related Risks**

*Bankruptcy Relief is Not Available to the Issuer, but it is Available to the Authority and to the Servicer*

With respect to the Issuer, its status as a municipality and the state law prohibition against its filing of a case under chapter 9 would result in the Issuer having no access to relief under the Bankruptcy Code. It would remain subject to applicable state law concerning debtors and creditors. The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York and is explicitly authorized to be a chapter 9 debtor pursuant to its enabling legislation. Also as described elsewhere in this Official Statement, LIPA is a corporation eligible to be the subject of a voluntary or involuntary petition in a liquidation case under chapter 7 of the Bankruptcy Code or a reorganization case under chapter 11 of the Bankruptcy Code.

*If the Servicer Were a Debtor in a Bankruptcy Proceeding, the Servicer Could Elect to Reject the Servicing Agreement and Any Resulting Delay in the Appointment of a Replacement or Successor Servicer Could Disrupt the Billing and Collection of the Restructuring Charges, Thus Delaying the Payment on the Bonds*

Among the powers given to a debtor in such a bankruptcy case is the right to "assume" or "reject" any unexpired lease or "executory contract." While not defined in the Bankruptcy Code, an "executory contract" is generally said to be a bilateral agreement as to which material performance remains for both parties at the time the bankruptcy case is commenced. The Servicing Agreement would likely be found to be an executory contract. If LIPA, as debtor, elected to reject the Servicing Agreement as permitted under the Bankruptcy Code, the Servicing Agreement would no longer be enforceable against LIPA, as Servicer, and the Issuer, or the Trustee as the Issuer's assignee, would have only general unsecured claims against LIPA for the damages resulting from such rejection.

Such claims would be subject to being discharged in the bankruptcy case and no assurance can be given as to what percentage of their claims unsecured creditors would receive in the bankruptcy case.

In the event of a bankruptcy of the Servicer, the Servicing Agreement provides for the appointment of a Successor Servicer. However, the automatic stay in effect during a Servicer bankruptcy might delay or prevent a Successor Servicer's replacement of the Servicer. Even if a Successor Servicer is permitted to be appointed to replace the Servicer, a successor may be difficult to obtain and may not be capable of performing all of the duties that LIPA as Servicer was capable of performing. Furthermore, should the Servicer enter into bankruptcy, it may be permitted to stop acting as Servicer.

*The Authority Will Commingle the Restructuring Charges with Other Revenues That Are Collected For It, Which Might Make Such Commingled Amounts Unavailable to Pay Amounts Owing on the Bonds*

The Servicer is required to deposit, or cause to be deposited, into the Allocation Account the Charge Collections and the other amounts due on account of their customer bills, where they are commingled with other revenues collected that are not Restructuring Charges. On each Business Day, to the extent that funds are available in the Allocation Account, the Allocation Agent will transfer the estimated amount of Charge Collections from the Allocation Account to the Collection Account.

The Securitization Law provides that the relative priority of a lien created under the Securitization Law is not affected by the commingling of Restructuring Charges arising with respect to the Restructuring Property with other amounts. In the event of a bankruptcy of the Authority, a party in interest in the bankruptcy might assert, and a court might rule, that the Restructuring Charges commingled with the Authority's own funds prior to and as of the date of bankruptcy were property of the Authority as of that date, rather than the Issuer's property. If the court so rules, then the court might also rule that the Trustee has only a general unsecured claim against the Authority for the amount of commingled Restructuring Charges held as of that date and could not recover the commingled Restructuring Charges held as of the date of the bankruptcy.

*The Sale of Restructuring Property Might Be Construed as a Financing and Not a Sale in the Authority's Bankruptcy Case, Which Conclusion Might Delay or Limit Payments on the Bonds*

The Authority will represent and warrant that the transfer of the Restructuring Property in accordance with the Sale Agreement constitutes a true and valid sale and assignment of that Restructuring Property by the Authority to the Issuer. It will be a condition of closing for the sale of the Restructuring Property pursuant to the Sale Agreement that the Issuer will take the appropriate actions under the Securitization Law, including an informational filing of a Uniform Commercial Code financing statement with the Secretary of State of New York. According to the Securitization Law, any pledge of the Restructuring Property or proceeds thereof shall be perfected, valid and binding from the time when the pledge is made. The description of the Restructuring Property in any security agreement and any financing statement must refer to the Securitization Act and the Financing Order. No instrument needs to be recorded in order to perfect the lien on the Restructuring Property. However, as described herein, the Issuer will cause a financing statement and any necessary continuation statements, which in the case of the Restructuring Property shall be for informational purposes only, describing the pledge and referring to the Financing Order and the Restructuring Property under Article 9 of the Uniform Commercial Code.

A bankruptcy court generally follows state property law on issues such as those addressed by the state law provisions referred to above. However, a bankruptcy court does not follow state law if it determines that the state law is contrary to a paramount federal bankruptcy policy or interest. In the event of a bankruptcy filing by the Authority, if a party in interest in the bankruptcy were to take the position that the transfer of the Restructuring Property to the Issuer pursuant to that Sale Agreement was a financing transaction and not a true sale under applicable creditors' rights principles, there can be no assurance that a court would not adopt this position.

The parties have attempted to mitigate the impact of a possible recharacterization of a sale of Restructuring Property as a financing transaction under applicable creditors' rights principles. The Sale Agreement will provide that if the transfer of the applicable Restructuring Property is thereafter recharacterized by a court as a financing transaction and not a true sale, the transfer by the Authority will be deemed to have granted to the Issuer and the Trustee a first priority security interest in all the Authority's right, title and interest in and to the Restructuring Property and all proceeds thereof. As a result of the Issuer causing a UCC financing statement to be filed, the Issuer would, in the event of a recharacterization, be a secured creditor of the Authority with a lien on the Restructuring Property and all proceeds thereof.

If the Issuer were determined to have only a security interest in the Restructuring Property, the Issuer would be subject to the risks of a secured creditor in a bankruptcy case. As a result, repayment of the Bonds might be significantly delayed and a plan of reorganization in the bankruptcy might permanently modify the amount and timing of payments to the Issuer of the Charge Collections and therefore the amount and timing of funds available to the Issuer to pay the Holders. However, the law does provide that the value of the creditor's perfected lien must be maintained.

If the transaction is recharacterized as a financing rather than a true sale and if the Issuer fails to otherwise perfect its interest in the Restructuring Property sold pursuant to the Sale Agreement, the Issuer would be an unsecured creditor of the Authority whose claims would be subject to being discharged in the bankruptcy case. No assurance can be given as to what percentage of their claims unsecured creditors would receive in any bankruptcy case involving the Authority.

*In a Proceeding in Which the Authority is a Debtor, the Bankruptcy Court Could Conclude that the Restructuring Property Comes Into Existence Only as Customers Take Delivery of Electricity, Which Could Impair the Issuer's Interest in Such Restructuring Property, Thus Impacting the Collection of the Restructuring Charges*

The Authority will represent in the Sale Agreement, and the Securitization Law provides, that the Restructuring Property sold pursuant to such Sale Agreement constitutes an existing, present property right on the date that it is first transferred and pledged in connection with the issuance of the Bonds. Further, as described above, a bankruptcy court generally follows state property law on issues such as those addressed by the state law provisions referred to above. Nevertheless, no assurance can be given that, in the event of a bankruptcy of the Authority, a court would not rule that the applicable Restructuring Property comes into existence only as Customers use electricity.

If a court were to accept the argument that the applicable Restructuring Property comes into existence only as Customers use electricity, no assurance can be given that a security interest in favor of the Bondholders would attach to the Restructuring Charges in respect of electricity consumed after the commencement of the bankruptcy case or that the Restructuring Property has been sold to the Issuer. If it were determined that the Restructuring Property had not been sold to the Issuer, and the security interest in favor of the Bondholders did not attach to the applicable Restructuring Charges in respect of electricity consumed after the commencement of the bankruptcy case, then the Issuer would have an unsecured claim against the Authority. If so, there would be delays and/or reductions in payments on the Bonds. Whether or not a court determined that Restructuring Property had been sold to the Issuer pursuant to a Sale Agreement, no assurances can be given that a court would not rule that any Restructuring Charges relating to electricity consumed after the commencement of the bankruptcy could not be transferred to the Issuer or the Trustee.

Regardless of whether the Authority is the debtor in a bankruptcy case, if a court were to accept the argument that Restructuring Property sold pursuant to the Sale Agreement comes into existence only as customers take delivery of electricity, a tax or government lien or other nonconsensual lien on property of the Authority arising before that Restructuring Property came into existence could have priority over the Issuer's interest in that Restructuring Property. Adjustments to the Restructuring Charges may be available to mitigate this exposure, although there may be delays in implementing these adjustments.

*Certain Contractual Claims Against the Authority Might be Limited in Case of a Bankruptcy of Authority*

If the Authority were to become a debtor in a bankruptcy case, claims, including indemnity claims, by the Issuer or the Trustee against the Authority as Seller under the Sale Agreement and the other documents executed in connection therewith would be unsecured claims that would be subject to being discharged in the bankruptcy case. In addition, a party in interest in the bankruptcy may request that the bankruptcy court estimate any contingent claims that the Issuer or the Trustee have against the Authority. That party may then take the position that these claims should be estimated at zero or at a low amount because the contingency giving rise to these claims is unlikely to occur. If a court were to hold that the indemnity provisions were unenforceable, the Issuer would be left with a claim for actual damages against the Authority based on breach of contract principles. The actual amount of these damages would be subject to estimation and/or calculation by the court.

No assurances can be given as to the result of any of the above-described actions or claims. Furthermore, no assurance can be given as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy case involving the Authority.

*The Bankruptcy of the Authority Might Limit the Remedies Available to the Trustee*

Upon an event of default under the Indenture, the Securitization Law permits the Trustee to enforce the security interest in the Restructuring Property sold pursuant to the Sale Agreement in accordance with the terms of the Indenture. In this capacity, the Trustee is permitted to request a New York court to order the sequestration and payment to Holders of Bonds of all revenues arising from the applicable Restructuring Charges. There can be no assurance, however, that a New York court judge would issue this order after a Seller bankruptcy in light of the automatic stay provisions of Section 362 of the United States Bankruptcy Code. In that event, the Trustee may under the Indenture seek an order from the bankruptcy court lifting the automatic stay with respect to this action by a New York court judge and an order requiring an accounting and segregation of the revenues arising from the Restructuring Property sold pursuant to the Sale Agreement.

*A Bankruptcy of LIPA and/or the Authority Might Result in Consolidation of LIPA's or the Authority's Assets and Liabilities with Those of the Issuer, Potentially Causing Losses or Delays in Payments on the Bonds*

If LIPA and/or the Authority were to become a debtor in a bankruptcy case, a party in interest might attempt to substantively consolidate the assets and liabilities of LIPA, the Authority and the Issuer. The Issuer and the Authority have taken steps to attempt to minimize this risk. See "THE ISSUER" in this Official Statement. However, no assurance can be given that if LIPA and/or the Authority were to become a debtor in a bankruptcy case, a court would not order that the Issuer's assets and liabilities be substantively consolidated with those of LIPA and/or the Authority. Such substantive consolidation could cause payment of the claims of the beneficial owners of the Bonds to be subject to substantial delay and to adjustment in timing and amount under a plan of reorganization in the bankruptcy case.

*In a Bankruptcy of the Authority, the Remittances of the Restructuring Charges by Servicer Prior to the Date of the Bankruptcy Should Not Constitute Preferences, But Resolution of Such Issues Could Delay the Payments on the Bonds*

In most bankruptcy cases, a payment by the debtor on account of antecedent debt may constitute a preference under bankruptcy law. Any payment within 90 days of the filing of the bankruptcy petition (or within one year if the remittance was on account of antecedent debt owed to an insider) that constitutes a preference could be avoidable, and the funds could be required to be returned to the bankruptcy estate of the debtor.

Transfers to a secured creditor of collateral in which the creditor has a perfected first lien are not subject to recovery as a preference. Moreover, in a chapter 9 case, transfers made to or for the benefit of a holder of a note or a bond, and on account of such note or bond, are not recoverable as a preference. As a result, notwithstanding a chapter 9 filing by the Authority, payments received by the Trustee or the Holders prior to the filing of the bankruptcy case should not be recoverable as preferences. However, any such action could result in a delay of the recovery of the Restructuring Charges.

**Risks Associated with the Unusual Nature of the Restructuring Property**

*The Holders May Experience Material Payment Delays Because the Source of Funds for Payment is Limited.*

The Bonds will be solely the obligation of the Issuer and will not be a debt of or a pledge of the faith and credit of the State or any political or governmental unit thereof, including the PSC or the Public Authorities Control Board. The Bonds shall be nonrecourse to the credit or any assets of the State and to the credit or, except for the Restructuring Property, any assets of the Issuer. The Bonds shall be limited obligations of the Issuer, payable solely out of the Restructuring Property, including the rights to bill and collect Restructuring Charges, derived from or in connection with the Sale Agreement (including all sums deposited in any Collection Account from time to time pursuant to the Sale Agreement or the Indenture, except for amounts in the Upfront Financing Costs Subaccount) and, in certain events, out of amounts obtained through the exercise of any remedy provided for in the Indenture. The Bonds shall never be paid out of any other funds of the Issuer except such Restructuring Property. No recourse under the Bonds shall be had against any past, present or future officer or director of the Issuer. The Bonds shall never be paid in whole or in part out of any funds raised or to be raised by taxation or out of any other revenues or assets of the Issuer or the State except the collateral pledged by the Indenture. The principal of and interest on the Bonds and all other amounts owing under the Indenture are secured, as set forth in the Indenture, by an assignment by the Issuer of certain of its rights under the Sale Agreement, including a pledge of certain of the revenues derived from and in connection with the Sale Agreement.

The Bonds are not insured or guaranteed by LIPA, including in its capacity as the Servicer, or by any of its affiliates, the Trustee or by any other person or entity. Thus, Holders must rely for payment solely upon the Securitization Law, the Financing Order and state and federal constitutional rights to enforcement of the Securitization Law and the Financing Order, the Restructuring Property, including the rights to bill and collect the Restructuring Charges, and Charge Collections and funds on deposit under the Indenture held by the Trustee.

*Foreclosure of the Trustee's Lien on the Restructuring Property Securing the Bonds Might Not be Practical, and Acceleration of the Bonds Before Maturity Might have Little Practical Effect*

Under the Securitization Law and the Indenture, the Trustee or the Holders have the right to foreclose or otherwise enforce the lien on the Restructuring Property securing the Bonds. However, in the event of foreclosure, there is likely to be a limited market, if any, for the Restructuring Property. Therefore, foreclosure might not be a realistic or practical remedy. Moreover, although principal of the Bonds will be due and payable upon acceleration of the Bonds before maturity, the Restructuring Charges may not be accelerated and the nature of the Collateral will result in principal of the Bonds being paid as funds become available. If there is an acceleration of the Bonds, all tranches of the Bonds will be paid pro rata; therefore some tranches might be paid earlier than expected and some tranches might be paid later than expected.

*The Credit Ratings Are Not an Indication of the Expected Rate of Payment of Principal on the Bonds*

The Bonds are expected to receive credit ratings from three nationally recognized statistical rating organizations ("NRSROs"). A rating is not a recommendation to buy, sell or hold the Bonds. The ratings merely analyze the probability that the Issuer will repay the principal amount of the Bonds at each Final Maturity Date (which is later than the related Scheduled Maturity Date) and will make timely interest payments. The ratings are not an indication that the rating agencies believe that principal payments are likely to be paid on time according to the Expected Amortization Schedules.

Under Rule 17g-5 of the Securities Exchange Act of 1934, NRSROs providing the sponsor of a security with the requisite certification will have access to all information posted on a website by the sponsor for the purpose of determining the initial rating of such security and monitoring the rating after the Issuance Date in respect of the Bonds. As a result, an NRSRO other than the NRSRO hired by the sponsor (the "hired NRSRO") may issue ratings on the Bonds ("Unsolicited Ratings"), which may be lower, and could be significantly lower, than the ratings assigned by the hired NRSROs. The Unsolicited Ratings may be issued prior to, or after, the Issuance Date in respect of the Bonds. Issuance of any Unsolicited Rating will not affect the issuance of the Bonds. Issuance of an Unsolicited Rating lower than the ratings assigned by the hired NRSRO on the Bonds might adversely affect the value of the Bonds and, for regulated entities, could affect the status of the Bonds as a legal investment or the capital treatment of the Bonds. Investors in the Bonds should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of a hired NRSRO. None of the Authority, the Issuer, the Underwriters or any of their affiliates will have any obligation to inform the Holders of any Unsolicited Ratings assigned after the date of this Official Statement. In addition, if the Issuer or the Authority fail to make available to a non-hired NRSRO any information provided to any hired rating agency for the purpose of assigning or monitoring the ratings on the Bonds, a hired NRSRO could withdraw its ratings on the Bonds, which could adversely affect the market value of the Bonds and/or limit the Holder's ability to resell its Bonds.

*If the Ratings on the Bonds are Withdrawn or Revised, the Value of your Bonds may be Adversely Affected*

The ratings on the Bonds may be withdrawn or revised, which may have an adverse effect on the market price of the Bonds. A security rating is not a recommendation to buy, sell or hold the Bonds. The ratings are assessments by the respective Rating Agencies of the likelihood that interest and principal on the Bonds will be paid on a timely basis. Ratings on the Bonds may be lowered, qualified or withdrawn at any time without notice.

*The Absence of a Secondary Market for the Bonds Might Limit the Ability to Resell the Bonds*

The Underwriters for the Bonds might assist in resales of the Bonds, but they are not required to do so. A secondary market for the Bonds might not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow a Holder to resell any of its Bonds.

*Regulatory Provisions Affecting Certain Investors Could Adversely Affect the Liquidity of the Bonds*

Article 122a of European Union Directive 2006/48/EC (as required to be implemented by the Member States of the European Economic Area ("EEA") (the "CRD")) applies, in general, to newly issued securitizations

after December 31, 2010. Article 122a restricts an EEA regulated credit institution and consolidated group affiliates thereof (each, an “Affected Investor”) from investing in a securitization (as defined by the CRD) unless the originator, sponsor or original lender in respect of that securitization has explicitly disclosed to the Affected Investor that it will retain, on an ongoing basis, a net economic interest of not less than 5% in that securitization in the manner contemplated by Article 122a. Article 122a also requires that an EEA regulated credit institution be able to demonstrate that it (or, in the case of investment by an affiliated Affected Investor, such Affected Investor) has undertaken certain due diligence in respect of, amongst other things, the bonds it has acquired and the underlying exposures, and that procedures have been established for monitoring the performance of the underlying exposures on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a may result in the imposition of a substantial additional capital charge with respect to the investment made in the securitization by the relevant Affected Investor.

None of the Authority, the Issuer or any other party to the transaction intends to retain a material net economic interest in the transaction in accordance with the requirements of Article 122a or take any other action which may be required by Affected Investors for the purposes of their compliance with Article 122a. This may have a negative impact on the regulatory capital position of an EEA regulated credit institution (directly or by virtue of consolidated regulatory capital requirements) and on the value and liquidity of the Bonds in the secondary market. Affected Investors in the Bonds are responsible for analyzing their own regulatory position, and are encouraged to consult with their own investment and legal advisors regarding compliance with Article 122a (and any related implementing rules in the relevant EEA Member State) and the suitability of the bonds for investment. None of the Authority, the Issuer, any Underwriter or any other party to the transaction makes any representation to any prospective investor or purchaser of the Bonds regarding the regulatory capital treatment of their investment in the Bonds on the Issuance Date or at any time in the future.

The fact that the Bonds have not been structured to comply with Article 122a could limit the ability of an EEA-regulated credit institution or the interest of another Affected Investor to purchase Bonds, which in turn may adversely affect the liquidity of the Bonds in the secondary market. This could adversely affect the liquidity of the market should a Holder seek to sell its Bonds or the price a Holder may receive upon any sale of its Bonds.

## **UNDERWRITING**

The Underwriters listed on the cover page of this Official Statement, for which Goldman, Sachs & Co. and Morgan Stanley & Co. LLC are acting as the co-lead book-running managers, have agreed, jointly and severally and subject to certain conditions, to purchase the Bonds from the Issuer at an underwriters’ discount of \$10,876,185.72. The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

The issuance of the Series 2013T Bonds or the Series 2013TE Bonds is not contingent upon the issuance of the other Series.

The Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than such public offering prices.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers for the distribution of the Bonds at the initial public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

## **TAX MATTERS**

### **Series 2013TE Bonds**

#### *Opinion of Bond Counsel*

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013TE Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2013TE Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Authority and LIPA in connection with the Series 2013TE Bonds, and Bond Counsel has assumed compliance by the Issuer, the Authority and LIPA with certain ongoing covenants to comply



with applicable requirements of the Code to assure the exclusion of interest on the Series 2013TE Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2013TE Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2013TE Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2013TE Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2013TE Bonds, or under state and local tax law.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2013TE Bonds in order that interest on the Series 2013TE Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2013TE Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2013TE Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Issuer, the Authority and LIPA have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2013TE Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2013TE Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2013TE Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2013TE Bonds.

Prospective owners of the Series 2013TE Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2013TE Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Series 2013TE original issue discount” (“Series 2013TE OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2013TE Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2013TE Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2013TE Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2013TE Bonds having Series 2013TE OID (a “Discount Bond”), Series 2013TE OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2013TE Bonds.

In general, under Section 1288 of the Code, Series 2013TE OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued Series 2013TE OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2013TE Bond. Accrued Series 2013TE OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires a Series 2013TE Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2013TE Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

#### *Information Reporting and Backup Withholding*

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2013TE Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2013TE Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2013TE Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

#### *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013TE Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2013TE Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2013TE Bonds. For example, the Fiscal Year 2014 Budget proposed on April 10, 2013, by the Obama Administration recommends a

28% limitation on itemized deductions and “tax preferences,” including “tax-exempt interest.” The net effect of such proposal, if enacted into law, would be that an owner of a Series 2013TE Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Series 2013TE Bond.

Prospective purchasers of the Series 2013TE Bonds should consult their own tax advisors regarding the foregoing matters.

## **Series 2013T Bonds**

### *Opinion of Bond Counsel*

In the opinion of Bond Counsel, interest on the Series 2013T Bonds (i) is included in gross income for federal income tax purposes pursuant to the Internal Code, and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2013T Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

### *Certain Federal Tax Consequences*

The following discussion is a brief summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of Series 2013T Bonds by original purchasers of the Series 2013T Bonds who are “U.S. Holders”, as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series 2013T Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Series 2013T Bonds as a position in a “hedge” or “straddle”, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Series 2013T Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Series 2013T Bonds should consult with their own tax advisors concerning the United States federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2013T Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

### *Original Issue Discount*

In general, if Series 2013T original issue discount (“Series 2013T OID”) is greater than a statutorily defined *de minimis* amount, a holder of a Series 2013T Bond having a maturity of more than one year from its date of issue must include in federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Series 2013T Bond) the daily portion of Series 2013T OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “Series 2013T OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Series 2013T Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Series 2013T Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “*de minimis amount*” is an amount equal to 0.25 percent of the Series 2013T Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Series 2013T Bond using the constant-yield method, subject to certain modifications.

### *Acquisition Discount on Short-Term Bonds*

Each holder of a Series 2013T Bonds with a maturity not longer than one year (a “Short-Term Bond”) is subject to rules of Sections 1281 through 1283 of the Code, if such holder is an accrual method taxpayer, bank, regulated investment company, common trust fund or among certain types of pass-through entities, or if the Short-Term Bond is held primarily for sale to customers, is identified under Section 1256(e)(2) of the Code as part of a

hedging transaction, or is a stripped bond or coupon held by the person responsible for the underlying stripping transaction. In any such instance, interest on, and “acquisition discount” with respect to, the Short-Term Bond accrue on a ratable (straight-line) basis, subject to an election to accrue such interest and acquisition discount on a constant interest rate basis using daily compounding. “Acquisition discount” means the excess of the stated redemption price of a Short-Term Bond at maturity over the holder’s tax basis therefor.

#### *Bond Premium*

In general, if a Series 2013T Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series 2013T Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

#### *Disposition and Defeasance*

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2013T Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Series 2013T Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2013T Bonds to be deemed to be no longer outstanding under the Indenture of the Series 2013T Bonds (a “defeasance”). See “THE INDENTURE” herein. For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2013T Bonds subsequent to any such defeasance could also be affected.

#### *Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to non-corporate holders of the Series 2013T Bonds with respect to payments of principal, payments of interest, and the accrual of Series 2013T OID on a Series 2013T Bond and the proceeds of the sale of a Series 2013T Bond before maturity within the United States. Backup withholding may apply to holders of Series 2013T Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States federal income tax provided the required information is furnished to the Internal Revenue Service.

#### *U.S. Holders*

The term “U.S. Holder” means a beneficial owner of a Series 2013T Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

#### *IRS Circular 230 Disclosure*

The advice under the caption, “Series 2013T Bonds,” above concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 2013T Bonds, was written to support the marketing of the Series 2013T Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each

prospective purchaser of the Series 2013T Bonds is advised that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the Bondholder under the Code, and (ii) the Bondholder should seek advice based on the Bondholder's particular circumstances from an independent tax advisor.

#### *Miscellaneous*

Tax legislation, administrative actions taken by tax authorities, or court decisions may adversely affect the tax-exempt status of interest on the Series 2013T Bonds under state law and could affect the market price or marketability of the Series 2013T Bonds.

Prospective purchasers of the Series 2013T Bonds should consult their own tax advisors regarding the foregoing matters.

## **ERISA CONSIDERATIONS**

### **General**

The Employee Retirement Income Security Act of 1974, known as ERISA, and Section 4975 of the Internal Revenue Code impose certain requirements on plans subject to ERISA or Section 4975 of the Internal Revenue Code. ERISA and the Internal Revenue Code also impose certain requirements on fiduciaries of a plan in connection with the investment of the assets of the plan. For purposes of this discussion, "plans" include employee benefit plans and other plans and arrangements that provide retirement income, including individual retirement accounts and annuities and Keogh plans, as well as some collective investment funds, insurance company general or separate accounts or other entities in which the assets of those plans, accounts or arrangements are invested. A fiduciary of an investing plan is any person who in connection with the assets of the plan:

- has discretionary authority or control over the management or disposition of assets, or
- provides investment advice for a fee.

Some plans, such as governmental plans, and certain church plans, and the fiduciaries of those plans, are not subject to ERISA requirements. Accordingly, assets of these plans may be invested in the bonds without regard to the ERISA considerations described below, subject to the provisions of other applicable federal and state law. Any such plan which is qualified and exempt from taxation under Sections 401(a) and 501(a) of the Internal Revenue Code, however, is subject to the prohibited transaction rules in Section 503 of the Internal Revenue Code.

ERISA imposes certain general fiduciary requirements on fiduciaries, including:

- investment prudence and diversification, and
- the investment of the assets of the plan in accordance with the documents governing the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code also prohibit a broad range of transactions involving the assets of a plan and persons who have certain specified relationships to the plan, referred to as "parties in interest," unless a statutory or administrative exemption is available. Parties in interest include parties in interest under ERISA and disqualified persons under the Internal Revenue Code. The types of transactions that are prohibited include:

- sales, exchanges or leases of property,
- loans or other extensions of credit, and
- the furnishing of goods or services.

Certain persons that participate in a prohibited transaction may be subject to an excise tax under Section 4975 of the Internal Revenue Code or a penalty imposed under Section 501(i) of ERISA, unless a statutory or administrative exemption is available. In addition, the persons involved in the prohibited transaction may have to cancel the transaction and pay an amount to the plan for any losses realized by the plan or profits realized by these persons. In addition, individual retirement accounts involved in the prohibited transaction may be disqualified which would result in adverse tax consequences to the owner of the account.

## **Regulation of Assets Included in a Plan**

A fiduciary's investment of the assets of a plan in the Bonds may cause the Issuer's assets to be deemed assets of the plan. Section 2510.3-101 of the regulations of the United States Department of Labor, as modified by Section 3(42) of ERISA (the "plan asset regulations"), provides that the assets of an entity will be deemed to be assets of a plan that purchases an interest in the entity if the interest that is purchased by the plan is an equity interest, equity participation by benefit plan investors is significant and none of the other exceptions contained in Section 2510.3-101 of the regulations applies. An equity interest is defined in Section 2510.3-101 of the regulations as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is no authority directly on point and unless otherwise stated in this Official Statement, it is anticipated that the Bonds will be treated as indebtedness under local law without any substantial equity features.

If the Bonds were deemed to be equity interests in the Issuer and none of the exceptions contained in Section 2510.3-101 of the regulations were applicable, then the Issuer's assets would be considered to be assets of any plans that purchase the Bonds. The extent to which the Bonds are owned by benefit plan investors (as defined in the plan asset regulations) will not be monitored. If the Issuer's assets were deemed to constitute "plan assets" pursuant to Section 2510.3-101 of the regulations, transactions the Issuer might enter into, or may have entered into in the ordinary course of business, might constitute non-exempt prohibited transactions under ERISA and or Section 4975 of the Internal Revenue Code.

In addition, the acquisition or holding of the Bonds by or on behalf of a plan could give rise to a prohibited transaction if the Issuer or the Trustee, the Authority, any other Servicer, any Underwriter or certain of their affiliates has, or acquires, a relationship to an investing plan. Each purchaser of a Bond will be deemed to have represented and warranted by virtue of its acquisition and holding of a Bond that either (1) it is not and is not acting on behalf of, or using assets of, an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, a plan (as defined in Section 4975(e)(1) of the Internal Revenue Code) that is subject to Section 4975 of the Internal Revenue Code or an entity that holds or is deemed to hold the assets of such an employee benefit plan or plan by virtue of such employee benefit plan's or plan's investment in such entity or (2) its purchase and holding of the Bond will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Before purchasing any bonds by or on behalf of a plan, you should consider whether the purchase and holding of Bonds might result in a prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code and, if so, whether any prohibited transaction exemption might apply to the purchase and holding of the Bonds.

## **Prohibited Transaction Exemptions**

If you are a fiduciary of a plan or any other person proposing to purchase the Bonds on behalf of or using assets of a plan, before purchasing any Bonds, you should consider the availability of one of the Department of Labor's prohibited transaction class exemptions, referred to as PTCEs, or one of the statutory exemptions provided by ERISA or Section 4975 of the Internal Revenue Code, which include:

- PTCE 75-1, which exempts certain transactions between a plan and certain broker-dealers, reporting dealers and banks,
- PTCE 84-14, which exempts certain transactions effected on behalf of a plan by a "qualified professional asset manager,"
- PTCE 90-1, which exempts certain transactions between insurance company separate accounts and parties in interest,
- PTCE 91-38, which exempts certain transactions between bank collective investment funds and parties in interest,
- PTCE 95-60, which exempts certain transactions between insurance company general accounts and parties in interest,
- PTCE 96-23, which exempts certain transactions effected on behalf of a plan by an "in-house asset manager," and

- the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Internal Revenue Code, which exempts certain transactions between plans and parties in interest that are not fiduciaries with respect to the transaction.

The Issuer cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the Bonds by, on behalf of, or using assets of a plan or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment. Even if one of these class exemptions or statutory exemptions were deemed to apply, Bonds may not be purchased with assets of any plan if the Issuer or the Trustee, the Authority, LIPA, any other Servicer, any Underwriter or any of their affiliates:

- has investment discretion over the assets of the plan used to purchase the Bonds,
- has authority or responsibility to give, or regularly gives, investment advice regarding the assets of the plan used to purchase the Bonds, for a fee and under an agreement or understanding that the advice will serve as a primary basis for investment decisions for the assets of the plan, and will be based on the particular investment needs of the plan, or
- unless PTCE 90-1 or 91-38 applied to the purchase and holding of the Bonds, is an employer maintaining or contributing to the plan.

### **Consultation with Counsel**

If you are a fiduciary of a plan or any other person which proposes to purchase the Bonds on behalf of or with assets of a plan, you should consult with your legal counsel as to the potential applicability of the plan asset regulations, the general fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Internal Revenue Code to any such investment and the availability of any prohibited transaction exemption in connection with any investment.

### **CONTINUING DISCLOSURE**

In the Continuing Disclosure Agreement, pursuant to Rule 15c2-12 under the Exchange Act (“Rule 15c2-12”), LIPA, as Servicer and designated agent for the Issuer, will covenant for the sole benefit of the Holders (and, to the extent specified in the Continuing Disclosure Agreement, the beneficial owners) of the Bonds and subject (except to the extent expressly provided in the Servicing Agreement) to the remedial provisions of the Basic Documents, to provide the information described therein in a timely manner, to the Municipal Securities Rulemaking Board (“MSRB”) through EMMA, in the electronic form prescribed by the MSRB. A copy of the form of the Continuing Disclosure Agreement is attached hereto as Appendix F.

The Issuer has determined that no financial or operating data concerning the Issuer is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Issuer will not provide any such information. As discussed above, the Servicer, as the designated agent of the Issuer, has covenanted in the Servicing Agreement to undertake all responsibilities for providing any continuing disclosure to the Holders of the Outstanding Bonds, and the Issuer shall have no responsibility to the Holders of the Bonds or any other person with respect to Rule 15c2-12.

In connection with its own indebtedness, the Authority has not failed to comply, in any material respects, with any previous undertakings (as such term is used in Rule 15c2-12) in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

### **RATINGS**

The Bonds are expected to be assigned ratings of “Aaa (sf)” by Moody’s, “AAA (sf)” by S&P, and “AAA (sf)” by Fitch. It is a condition to the issuance of the Bonds that such ratings are received.

The respective ratings by Fitch, Moody’s and S&P of the Bonds reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the Rating Agencies with respect thereto should be obtained from the Rating Agency furnishing the same, at the following addresses: Fitch, Inc., One State Street Plaza, New York, New York 10004; Moody’s Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Generally, a Rating Agency bases its rating and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its

own. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning Rating Agency. No person is obligated to maintain the rating on any Bonds and, accordingly, there is no assurance that such ratings for the Bonds will continue for any given period of time or that any of such ratings will not be revised downward or withdrawn entirely by any of the Rating Agencies, if, in the judgment of such Rating Agency or Agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the liquidity and the market price of the Bonds. In general, ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the Bonds other than the payment in full of each tranche of the Bonds by the Final Maturity Date as well as the timely payment of interest.

Under Rule 17g-5 of the Exchange Act, NRSROs providing the sponsor with the requisite certification will have access to all information posted on a website by the sponsor for the purpose of determining the initial rating and monitoring the rating after the Issuance Date in respect of the Bonds. As a result, an NRSRO other than a hired NRSRO may issue unsolicited ratings on the Bonds (“Unsolicited Ratings”), which may be lower, and could be significantly lower, than the ratings assigned by the hired NRSROs. The Unsolicited Ratings may be issued prior to, or after, the Issuance Date in respect of the Bonds. Issuance of any Unsolicited Rating will not affect the issuance of the Bonds. Issuance of an Unsolicited Rating lower than the ratings assigned by the hired NRSRO on the Bonds might adversely affect the value of the Bonds and, for regulated entities, could affect the status of the Bonds as a legal investment or the capital treatment of the Bonds. Investors in the Bonds should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of a hired NRSRO.

A portion of the fees paid by the Issuer to a NRSRO which is hired to assign a rating on the Bonds is contingent upon the issuance of the Bonds. In addition to the fees paid by the Issuer to a NRSRO at Closing, the Issuer will pay a fee to the NRSRO for ongoing surveillance for so long as the Bonds are outstanding. However, no NRSRO is under any obligation to continue to monitor or provide a rating on the Bonds.

#### **FINANCIAL ADVISOR**

Public Financial Management, Inc. (“PFM”) serves as the independent financial advisor to the Issuer and the Authority, respectively, in connection with the structuring, marketing and sale of the Bonds, including the timing and conditions of issuance, and other such financial guidance as requested by the PFM. Although PFM performed an active role in the drafting of this Official Statement and other related transaction documents, PFM has not independently verified any of the information set forth herein.

#### **ABSENCE OF LITIGATION**

##### **The Issuer**

There is not now pending, or to the knowledge of the Issuer, threatened, any litigation against the Issuer restraining or enjoining the issuance or delivery of the Bonds or questioning the validity of the Bonds or the Proceedings or authority under which they are issued. Neither the creation, organization or existence, nor the title of the present members and officers of the Issuer to their respective office, is being challenged or questioned. There is no litigation pending, or to the knowledge of the Issuer, threatened, against the Issuer which in any manner questions the right of the Issuer to enter into the Indenture or to secure the Bonds in the manner provided in the Indenture or to issue the Bonds in the manner provided in the Indenture and the Securitization Law. There is no action, suit, Proceeding or investigation, at law or in equity, before any court, public body or other body pending, or to its knowledge, threatened against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions under the Indenture or the performance of the obligations of the Issuer under the Indenture.

##### **The Authority and LIPA**

There is not now pending, or to the knowledge of the Authority or LIPA threatened, any litigation against the Authority or LIPA restraining or enjoining the issuance or delivery of the Bonds or questioning the validity of the Bonds or the Proceedings or authority under which they are issued. There is no litigation pending, or to the knowledge of the Authority or LIPA threatened, against the Authority or LIPA which in any manner questions the right of the Authority or LIPA to enter into the Basic Documents to which each is a party. There is no action, suit, Proceeding or investigation, at law or in equity, before any court, public body or other body pending, or to the knowledge of Authority or LIPA threatened, against or affecting it wherein an unfavorable decision, ruling or





## APPENDIX A

### Definitions

*Terms not defined elsewhere in this Official Statement are used as defined in this Appendix A.*

“Acquisition Discount” means the excess of the stated redemption price of a Short-Term Bond at maturity over the holder’s tax basis therefor.

“Actual Charge Collections” means the Charge Collections actually deposited into the Allocation Account.

“Adjustment Notice” means any filing made with the Authority by the Servicer on behalf of the Issuer to set or adjust the Restructuring Charge, including the Issuance Advice Letter.

“Administration Agreement” means the Administration Agreement, expected to be dated as of the Issuance Date, between the Issuer and LIPA, as amended and supplemented from time to time.

“Administration Fee” means an annual fee of \$100,000 entitled to the Administrator under the Administration Agreement.

“Administrator” means LIPA, or any successor administrator under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Allocation Account” means the deposit accounts or other accounts designated by the Authority from time to time and controlled by the Allocation Agent, into which all payments from or on behalf of Customers are to be deposited and from which transfers of estimated Charge Collections and Remittance Shortfalls are to be made to the Collection Account and transfers of Estimated Other Payments are to be made to appropriate accounts of the Authority. Initially, the Allocation Account shall refer to the clearing account[s] that have been established by the Authority with J.P. Morgan Chase Bank.

“Allocation Agent” means the entity designated by the Authority (which may be the Authority) that agrees to control the Allocation Account in trust for the benefit of the Trustee and the Authority Trustee, to accept all payments from or on behalf of Customers for deposit into the Allocation Account, to notify the Servicer on each Business Day of the amount deposited into the Allocation Account on the preceding Business Day, and, to the extent that funds are available in the Allocation Account, to transfer the estimated Charge Collections and Remittance Shortfalls from the Allocation Account to the Collection Account as instructed by the Servicer or the Trustee in writing and to transfer the Estimated Other Payments as instructed by the Authority or the Authority Trustee.

“Amended OSA” means the Amended and Restated Operations Services Agreement by and between LIPA and PSEG-LI, as further amended from time to time.

“Ancillary Agreement” means any bond, insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement, or other financial arrangement entered into in connection with the issuance or payment of the Bonds.

“Annual True-Up Adjustment” means the adjustment to the Restructuring Charges that is required to be made annually pursuant to the True-Up mechanism.

“Authenticating Agent” means the Trustee and any agent appointed by the Trustee to serve in that role.

“Authority” means the Long Island Power Authority, a corporate municipal instrumentality of the State of New York, and any successor thereto.

“Authority Designee” means one or more officers of the Authority to review and approve, as and on behalf of the Authority, the Issuance Advice Letter, the pricing terms of the Bonds, the amounts of the Restructuring Costs, expected Upfront Financing Costs and expected Ongoing Financing Costs, the net present value savings, the terms of the Basic Documents and take such other actions as are authorized in the final order.

“Authority Trustees” means the Authority’s Board of Trustees.

“Back-Up Security Interest” means a security interest in the Restructuring Property to secure a payment obligation incurred by the Seller in respect of the amount paid by the Issuer to the Seller pursuant to the Sale Agreement.

“Bankruptcy Code” or “Federal Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. § 101 et seq.), as amended from time to time.

“Base Rate Revenues” include electricity usage service charges and demand service charges.

“Basic Documents” means, collectively, the Indenture, the Servicing Agreement, the Administration Agreement, the Sale Agreement, the Continuing Disclosure Agreement, and all other documents and certificates delivered in connection therewith.

“Beneficial Owner” or “beneficial owner” of a security means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares investment power which includes the power to dispose, or to direct the disposition of, such security, except that a person who in the ordinary course of business is a pledgee of securities under a written pledge agreement shall not be deemed to be the beneficial owner of such pledged securities until the pledgee has taken all formal steps to declare a default and determines that the power to dispose or to direct the disposition of such pledged securities will be exercised, provided that:

- (a) the pledge agreement is bona fide,
- (b) the pledgee is:
  - (i) a broker or dealer registered under § 15 of the Exchange Act,
  - (ii) a bank as defined in § 3(a)(6) of the Exchange Act,
  - (iii) an insurance company as defined in § 3(a)(19) of the Exchange Act,
  - (iv) an investment company registered under § 8 of the Investment Company Act,
  - (v) an investment adviser registered under § 203 of the Investment Advisers Act of 1940,
  - (vi) an employee benefit plan, or pension fund which is subject to the provisions of ERISA or an endowment fund,
  - (vii) a parent holding company, provided the aggregate amount held directly by the parent, and directly and indirectly by its subsidiaries which are not persons specified in items (A) through (F) of this clause (2) does not exceed 1% of the securities of the subject class, or
  - (viii) a group, provided that all the members are persons specified in items (A) through (G) of this clause (2), and
- (c) the pledge agreement, prior to default, does not grant to the pledgee the power to dispose or direct the disposition of the pledged securities, other than the grant of such power(s) pursuant to a pledge agreement under which credit is extended subject to Regulation T (12 CFR 220.1 to 220.8) and in which the pledgee is a broker or dealer registered under § 15 of the Exchange Act.

“Bond” or “Restructuring Bond” means the Series 2013T and Series 2013TE bonds to be issued by the Issuer.

“Bond Counsel” means Hawkins Delafield & Wood LLP.

“Bond Interest Rate” means, with respect to any series and tranche of Bonds, the Interest Rate specified in the Indenture.

“Bond Purchase Agreement” means the Bond Purchase Agreement, dated December 12, 2013, between the Issuer and the underwriters named therein.

“Bond Register” means the register providing for the registration of the Bonds and transfers and exchanges thereof.

“Bond Registrar” means the registrar at any time of the Bond Register. The initial Bond Registrar shall be the Trustee.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in New York, New York, are, or DTC is, authorized or obligated by law, regulation or executive order to remain closed.

“Charge Collections” means the payments of the Restructuring Charges by or on behalf of Customers.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearstream” means Clearstream Banking, Luxembourg, S.A.

“Collateral” means as the context may require all of the Issuer’s right, title and interest (whether owned at the Issuance Date or thereafter acquired or arising) in and to (a) the Restructuring Property (created pursuant to Sections 5 and 7 of the LIPA Reform Act and Ordering Paragraph 11 of the Financing Order) transferred by the Seller to the Issuer pursuant to the Sale Agreement and all proceeds thereof, including Restructuring Charges as estimated, determined and adjusted from time to time pursuant to the Servicing Agreement in accordance with the Financing Order, (b) the statutory lien pursuant to the Securitization Law, (c) the Sale Agreement, (d) the Servicing Agreement, (e) the Administration Agreement, (f) the Collection Account (including, subject to limitation set forth below, all subaccounts thereof) and all amounts or investment property on deposit therein or credited thereto from time to time, (g) the security interest with respect to the Restructuring Property granted by the Seller to the Issuer in the Sale Agreement, (h) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion thereof, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, deposit accounts, securities accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind, and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing, and (i) all proceeds of the foregoing; it being understood that the following do not constitute Collateral: (1) any amounts required to be released pursuant to or contemplated by the terms of the Indenture and (2) proceeds from the sale of the Bonds required to pay the purchase price of the Restructuring Property paid pursuant to the Sale Agreement and the Upfront Financing costs related to the Bonds as deposited into the Upfront Financing Costs Subaccount (together with any interest earnings thereon).

“Collection Account” means one or more segregated trust accounts in the Trustee’s name for the deposit of Restructuring Property and all other amounts received with respect to the Collateral or under the Servicing Agreement.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, expected to be dated as of the Issuance Date, between the Issuer and LIPA as Servicer, a copy of a form of which is attached as Appendix F to this Official Statement.

“Corporate Trust Office” means the principal office of the Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the Issuance Date is located at The Bank of New York Mellon, 101 Barclay Street-Floor 7-West, New York, New York 10286, or at such other address as the Trustee may designate from time to time by notice to the Holders of Bonds and the Issuer, or the principal corporate trust office of any successor trustee by like notice.

“Customers” means all existing and future retail electric customers connected to the T&D System Assets and taking electric transmission or distribution service within the Service Area from LIPA, the Authority or any of its successors or assignees in the Service Area.

“Discount Bond” means any Series 2013TE Bonds having Series 2013TE OID.

“DPS” means the New York Department of Public Service, the staff arm of the PSC.

“DTC” means The Depository Trust Company.

“Eligible Account” means a segregated trust account with an Eligible Institution.

“Eligible Institution” means (a) the corporate trust department of the Trustee so long as any securities of the Trustee have either a short-term credit rating from Moody’s of at least “P-1” or a long-term unsecured debt rating from Moody’s of at least “A2” and have a credit rating from each other rating agency in one of its generic categories which signifies investment grade, or (b) a depository institution organized under the laws of the United States of America, any state or the District of Columbia (or any domestic branch of a foreign bank), (i) which has either (A) a

long-term issuer rating of “AA-” or higher by Standard & Poor’s and “A2” or higher by Moody’s, and, if rated by Fitch, the equivalent of the lower of those two ratings by Fitch, or (B) a short-term issuer rating of “A-1+” or higher by Standard & Poor’s and “P-1” or higher by Moody’s, and, if Fitch provides a rating thereon, “F1+” by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to Standard & Poor’s and Moody’s and (ii) whose deposits are insured by the FDIC. If so qualified under clause (b) above, the Trustee may be considered an Eligible Institution for the purposes of the definition of Eligible Account.

“Eligible Investments” means instruments and investment property denominated in United States currency which meet the criteria described below:

- (a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America,
- (b) demand deposits, time deposits or certificates of deposit and bankers’ acceptances of Eligible Institutions (including the Trustee in its commercial capacity),
- (c) commercial paper having, at the time of the investment or contractual commitment, a rating of not less than “A-1” from Standard & Poor’s, not less than “P-1” by Moody’s and not less than “F1” by Fitch (including commercial paper issued by the Trustee),
- (d) money market funds which have the highest rating from each of the Rating Agencies from which a rating is available (including funds for which the Trustee or any of its Affiliates is an investment manager or advisor),
- (e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or certain of its agencies or instrumentalities, entered into with Eligible Institutions,
- (f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or a registered broker-dealer, acting as principal and that meets certain ratings criteria set forth below:
  - (i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any broker/dealer being referred to in this definition as a “broker/dealer”), the unsecured short-term debt obligations of which are rated at least “P-1” by Moody’s, “A-1+” by Standard & Poor’s and, if Fitch provides a rating thereon, “F-1+” by Fitch, and the long-term debt obligations of which are rated at least “Aa3” by Moody’s, in each case at the time of entering into this repurchase obligation, or
  - (ii) an unrated broker/dealer acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least “P-1” by Moody’s, “A-1+” by Standard & Poor’s and, if Fitch provides a rating thereon, “F-1+” by Fitch, and the long-term debt obligations of which are rated at least “Aa3” by Moody’s, in each case at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company, and
- (g) any other investment permitted by each of the Rating Agencies, as evidenced by the Issuer Order accompanied by evidence of such permission reasonably satisfactory to the Trustee.

“EMMA” means the Electronic Municipal Market Access system.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Estimated Charge Collections” means the estimated Charge Collections calculated as provided in Annex 2 of the Servicing Agreement.

“Estimated Other Payments” means all payments by or on behalf of Customers other than estimated Charge Collections and any Remittance Shortfalls net of any Excess Remittance.

“Events of Default” means the following, as more fully described in this Official Statement under the heading “THE INDENTURE—Events of Default”:

- a failure to pay interest or redemption premium when due (after a cure period),
- a failure to pay principal on the Final Maturity Date,
- a failure to perform a covenant (after a cure period),
- a breach of representations or warranties (after a cure period),
- a voluntary or involuntary bankruptcy Proceeding of the Issuer, or
- an action in violation of the Financing Order or the State Pledge.

“Excess Funds Subaccount” means one of the four subaccounts of the Collection Account.

“Excess Remittance” means the amount, if any, calculated for a particular Reconciliation Period, by which all Estimated Charge Collections remitted to the Collection Account during such Reconciliation Period exceed Actual Charge Collections received by the Servicer during such Reconciliation Period.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Existing OSA” means an Operations Services Agreement, between LIPA and PSEG-LI, dated December 15, 2011.

“Expected Amortization Schedule” means the schedule specifying for each tranche the initial principal amount, the Bond Interest Rate, Scheduled Maturity Date and Final Maturity Date, including the Expected Sinking Fund Schedule for the Term Bonds and the matters specified in the definition thereof, as each appear in this Official Statement under the heading “THE BONDS—Expected Amortization Schedules” and/or on the inside cover page.

“Expected Sinking Fund Schedule” means a schedule specifying for the Term Bonds, the Scheduled Sinking Fund Redemption Dates, scheduled Outstanding Amounts, scheduled Sinking Fund Payments and minimum remaining Outstanding Amounts, as it appears in this Official Statement under the heading “THE BONDS—Redemption—Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules.”

“FDIC” means the Federal Deposit Insurance Corporation or any successor thereto.

“FERC” means the Federal Energy Regulatory Commission.

“Fiduciary” means the Trustee, the Bond Registrar and each Paying Agent.

“Final Maturity Date” means, with respect to any tranche of Bonds, the respective Final Maturity Date therefor as it appears in the Expected Amortization Schedules in, and on the inside cover page of, this Official Statement.

“Financing Costs” means the Upfront Financing Cost, Ongoing Financing Cost and any of the following:

- (a) interest, principal, and redemption premiums that are payable on the Bonds,
- (b) any payment required under an Ancillary Agreement and any amount required to fund or replenish reserve (including the Reserve Subaccount) or other accounts established under the terms of the Indenture or any Ancillary Agreement, or other financing documents pertaining to the Bonds,
- (c) any federal, state or local taxes, payment in lieu of taxes, franchise fees or license fees imposed on transition charge revenues, and
- (d) any cost related to issuing Restructuring Bonds, administering the Issuer and servicing Restructuring Property and Restructuring Bonds, or related to the efforts to prepare or obtain approval of a Financing Order, including, without limitation, costs of calculating adjustments of Restructuring Charges, Servicing Fees and expenses, Trustee fees and expenses, legal fees and expense, accounting fees and expenses, Administration Fees and expenses, placement fees, underwriting fees, fees and expenses of the Authority’s advisors and outside counsel, if any, Rating Agency fees and any other related cost that is approved for recovery in the Financing Order.

“Financing Order” means the restructuring cost financing order adopted by the Authority Trustees on October 3, 2013, which became irrevocable, final and non-appealable on November 21, 2013.

“Financing Party” means any Holder, any party to or beneficiary of an Ancillary Agreement, and any Fiduciary or other Person acting for the benefit of any of the foregoing pursuant to the Indenture.

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

“General Resolution” means the Authority’s Electric General Bond Resolution adopted on May 13, 1998.

“General Subaccount” means one of the four subaccounts of the Collection Account.

“Governmental Authority” means any nation or government, any federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative function of government.

“HEFPA” means the Home Energy Fair Practices Act.

“Holder” or “Bondholder” means the Person in whose name a Bond is registered on the Bond Register, and to the extent specified by the Indenture, the owners of bearer Bonds.

“Indenture” or “Trust Indenture” means the Utility Debt Securitization Authority Bond Indenture dated as of the Issuance Date, by and between the Issuer and the Trustee.

“Independent” means, when used with respect to any specified Person, that the Person (a) is in fact independent of the Issuer, any other obligor upon the Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

“Independent Certificate” means a certificate or opinion to be delivered to the Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of the Basic Documents, made by an Independent appraiser or other expert appointed by an Issuer order and consented to by the Trustee, and such opinion or certificate shall state that the signer has read the preceding definition of “Independent” and that the signer is Independent within the meaning thereof.

“Insolvency Event” means, with respect to a specified Person, (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person or any substantial part of its property in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days, or (b) the commencement by such Person of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

“Interest Rate” means the interest rate on any Bond.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended.

“Investment Company Act” means the Investment Company Act of 1940, as amended.

“Investment Earnings” means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

“IRS” means the Internal Revenue Service.

“Issuance Advice Letter” means the Issuance Advice Letter sent by the Servicer to the Issuer and the Authority pursuant to the Financing Order.

“Issuance Costs” means any of the following:

- (a) any initial payment made on issuance of the Bonds, and any amount required to fund any account required by the Basic Documents in the amounts specified in the Basic Documents, and
- (b) any other costs related to issuance of Bonds, including trustees fees, legal fees and expenses, consulting fees, administrative fees, accounting fees, printing fees, financial advisor fees and expenses, issuer fees, placement and underwriter fees and expenses, capitalized interest, rating agency fees and expenses, stock exchange listing and compliance fees, and filing fees, including costs related to obtaining a Financing Order.

“Issuance Date” means the date the Bonds are authenticated and delivered by the Trustee to or upon the order of the Issuer.

“Issuer” means the Utility Debt Securitization Authority, including any successor thereto.

“Issuer Order” means a written order signed in the name of the Issuer by any one of its authorized officers and delivered to the Trustee.

“Issuer’s Annual Report” means an annual report of the Issuer, including, to the extent available, audited annual financial statements.

“kW” and “kWh” mean kilowatt-hour.

“Legal Defeasance” means the ability of the Issuer to terminate all its obligations under the Indenture with respect to the Bonds in certain circumstances.

“Lien” means a security interest, lien, mortgage, charge, pledge, claim, or encumbrance of any kind.

“LILCO” means the Long Island Lighting Company.

“LIPA” means the Long Island Lighting Company, d/b/a LIPA.

“LIPA/LILCO Merger” means the Authority’s acquisition of LICO as a wholly-owned subsidiary of the Authority through a merger on May 28, 1998.

“LIPA Reform Act” means the whole of Chapter 173, Laws of New York, 2013.

“Long Island Choice” means a retail choice program adopted by the Authority in 1998.

“Losses” means (i) any and all amounts of principal and interest on the Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order which are not made when so required and (ii) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

“Mid-Year Review” means a mid-year review performed by the Servicer pursuant to the terms of the Servicing Agreement.

“Mid-Year True-Up Adjustment” means the adjustment to the Restructuring Charges made if after the Mid-Year Review the Servicer projects that the Charge Collections will be insufficient to pay timely principal and interest on the Bonds when due pursuant to the applicable Expected Amortization Schedule and to make timely payment on all other Ongoing Financing Costs. The adjustment will become effective on July 1 of such year as the Servicer files its Adjustment Notice.

“Monthly Servicer Certificate” means the certificate delivered by the Servicer to the Allocation Agent, the Issuer, the Authority and the Bond Trustee on or before the 13<sup>th</sup> business day of each calendar month, commencing as set forth in the Servicing Agreement.

“Moody’s” means Moody’s Investors Service, Inc. or any successor thereto. References to Moody’s are effective as long as Moody’s is a Rating Agency.

“MSRB” means the Municipal Securities Rulemaking Board.

“MW” means megawatt.



“MWh” means megawatt-hour.

“National Grid” means National Grid plc, a multi-national electric and gas utility company.

“National Grid Subs” means certain of the subsidiaries of National Grid.

“Notice of Default” means either (i) written notice, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Holders of at least 25 percent of the Outstanding Amount of the Bonds, specifying such default or incorrect representation or warranty and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder or (ii) the date the Issuer has actual knowledge of the default.

“NRSRO” means a nationally recognized statistical rating organization.

“Officer’s Certificate” means a certificate signed by a Responsible Officer of the Issuer (or, if so indicated, the Borrower or another Person) under the circumstances described in, and otherwise complying with, the applicable requirements of the Basic Documents, and delivered to the Trustee.

“Ongoing Financing Costs” means all Financing Costs other than Issuance Costs.

“Operating Expenses” means all Ongoing Financing Costs other than principal (including amortization, sinking fund or redemption payments) and redemption premium, if any, and interest on the Bonds and amounts required to replenish the Reserve Subaccount.

“Opinion of Counsel” means one or more written opinions of legal counsel who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such Opinion of Counsel, which counsel shall be reasonably acceptable to the party receiving such Opinion of Counsel, and which opinion shall be in form and substance reasonably satisfactory to such party. As to any factual matters involved in an Opinion of Counsel, such counsel may rely, to the extent that they deem such reliance proper, upon a certificate or certificates setting forth such matters which have been signed by an official, officer, general partner or authorized representative of a particular Governmental Authority, corporation, firm or other Person or entity.

“Optional True-Up Adjustment” means an adjustment to the Restructuring Charges permitted to be made pursuant to the True-Up Adjustment mechanism.

“OSA” means either the Existing OSA or the Amended OSA, each as may be amended and in effect from time to time.

“Outstanding” means, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture except:

- (a) Bonds theretofore canceled by the Bond Registrar or delivered to the Bond Registrar for cancellation,
- (b) Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Holders of such Bonds, and
- (c) Bonds in exchange for or in lieu of other Bonds which have been issued pursuant to the Indenture unless proof satisfactory to the Trustee is presented that any such Bonds are held by a bona fide purchaser;

provided, however, that in determining whether the Holders of the requisite Outstanding Amount of the Bonds or any series or tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture or under any Basic Document, Bonds owned by the Issuer, the Seller or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Trustee actually knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the Issuer, any other obligor upon the Bonds, the Seller or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Bonds or, if the context requires, all Bonds of a series or of a tranche, Outstanding at the date of determination.

“PACB” means the New York Public Authorities Control Board, and any successor thereto.

“Paying Agent” or “paying agent” means the Trustee or any successor paying agent or co-paying agent serving as such under the Indenture. If at any time there is no qualified paying agent serving as such, the Trustee shall act as paying agent under the Indenture.

“Payment Date” means, with respect to any tranche of Bonds, the dates specified as the Scheduled Sinking Fund Redemption Date in the Indenture for the Term Bonds or the Scheduled Maturity Date or the Final Maturity Date in the Expected Amortization Schedules included in this Official Statement; or if any such date is not a Business Day, the next Business Day.

“Person” means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or government or any agency or political subdivision thereof, and includes successors permitted by the Basic Documents.

“PFM” means Public Financial Management, Inc.

“Premium Bond” means a premium over the sum of all amounts payable on the Series 2013TE Bonds after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates).

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Protected Purchaser” has the meaning specified in Section 8-303 of the UCC.

“PSC” means New York State Public Service Commission.

“PSEG” means Public Service Enterprise Group Incorporated.

“PSEG-LI” generally means PSEG Long Island LLC, the contracting party under the OSA and its wholly-owned subsidiary dedicated to LIPA’s operations.

“Quarterly True-Up Adjustment” means an adjustment to the Restructuring Charges required to be made quarterly if there are any Bonds outstanding following the last Scheduled Maturity Date of the Bonds (or series of Bonds).

“Rating Agency” means collectively Moody’s, Standard & Poor’s or Fitch. If no such organization or successor is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, not less than ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of Standard & Poor’s and Moody’s to the Servicer, the Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any series or tranche of the Bonds and that prior to the taking of the proposed action no other Rating Agency shall have provided written notice to the Issuer that such action has resulted or would result in the suspension, reduction or withdrawal of the then current rating of any series or tranche of Bonds; provided, however, that if within such ten Business Day period, any Rating Agency (other than Standard & Poor’s) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (i) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request, and if it has, promptly request the related Rating Agency Condition confirmation and (ii) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency.

“Reconciliation Period” means the twelve-month period ending the last day of the Collection Period preceding the calculation of Remittance Shortfalls or Excess Remittances under the Servicing Agreement; provided, that the initial Reconciliation Period shall commence on the Issuance Date and may be less than twelve months.

“Record Date” means, with respect to a Payment Date, the close of business on the Business Day next preceding such Payment Date; provided, however, that if the Bonds cease to be held in DTC’s book-entry only

system, the Record Date will be the last Business Day of the calendar month immediately preceding such Payment Date.

“Refunded Debt” means certain of the debt of the Authority that was Outstanding on the Issuance Date and that will be purchased, redeemed, repaid, or defeased with the proceeds of the sale of the Restructuring Property by the Authority.

“Remittance” means each transfer of estimated Charge Collections or Remittance Shortfalls from the Allocation Account to the Collection Account.

“Remittance Date” means each Business Day on which a Remittance is to be made by the Servicer pursuant to the Servicing Agreement.

“Remittance Shortfall” means the amount, if any, calculated for a particular Reconciliation Period, by which Actual Charge Collections received by the Servicer during such Reconciliation Period exceed all Estimated Charge Collections remitted to the Collection Account during such Reconciliation Period.

“Required Reserve Level” means the amount required to be funded in the Reserve Subaccount, which will equal 0.50% of the aggregate principal amount of the Bonds originally issued by the Issuer; provided, however, if any of the Bonds are refunded in advance of their maturity as permitted by the Indenture, on and after the date that provision for the payment of the Bonds so refunded has been made as a condition to defeasance, the Required Reserve Level shall be equal to 0.50% of the Outstanding Amount of the Bonds immediately after such date.

“Reserve Subaccount” means one of the four subaccounts of the Collection Account.

“Responsible Officer” means, with respect to (a) the Issuer, any officer of the Issuer who is authorized to act for the Issuer in matters relating to the Issuer and who is identified on the list of Responsible Officers delivered by the Issuer to the Trustee on the Issuance Date (as such list may be modified or supplemented by the Issuer from time to time thereafter), (b) the Servicer, the President, any Vice President, the Treasurer, an Assistant Treasurer or any duly authorized officer, (c) the Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, Assistant Vice President, Secretary or Assistant Treasurer, Trust Officer or any other officer of the Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer’s knowledge and familiarity with the particular subject), (d) any other corporation, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, the Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances, (e) any partnership, any general partner thereof, and (f) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

“Restructuring Charge” means an irrevocable, nonbypassable charge required to be paid by the Customers.

“Restructuring Costs” means the amount of debt retirement costs and Upfront Financing Costs that the Authority proposes to pay through the sale of the Restructuring Property and the issuance of the Bonds.

“Restructuring Property” means all of the property, rights and interests, including the irrevocable right to impose, bill and collect the Restructuring Charges, of the Authority established pursuant to the Financing Order that are transferred to the Issuer pursuant to the Sale Agreement.

“Restructuring Property Documentation” means all documents relating to the Restructuring Property, including copies of the Financing Order and all documents filed with the Authority in connection with any True-Up Adjustment and computational records relating thereto.

“Rule 15c2-12” or the “Rule” means Rule 15c2-12 of the SEC under the Securities Exchange Act of 1934, as amended.

“Sale Agreement” means Restructuring Property Purchase and Sale Agreement, expected to be dated as of the Issuance Date, between the Issuer and the Seller.

“Scheduled Maturity Date” means, with respect to each tranche of Bonds, the date when all interest and principal are scheduled to be paid with respect to that tranche in accordance with the Expected Amortization Schedule, as specified in the Indenture. For the avoidance of doubt, the Scheduled Maturity Date with respect to

any tranche shall be the last Scheduled Payment Date set forth in the Expected Amortization Schedule relating to such tranche.

“Scheduled Payment Date” means each Payment Date on which the principal of the Bonds is scheduled to be paid.

“Scheduled Sinking Fund Payment” means, with respect to the Term Bonds, the Scheduled Sinking Fund Payment therefor as specified in the Expected Sinking Fund Schedule.

“Scheduled Sinking Fund Redemption Date” means, with respect to the Term Bonds, the Scheduled Sinking Fund Redemption Date therefor as specified in the Expected Sinking Fund Schedule.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Depository” means DTC, or its nominee, and its successors.

“Securitization Law” means Part B of the LIPA Reform Act.

“Seller” means the Authority in its capacity as the seller of the Restructuring Property.

“Semi-annual Servicer Certificate” means a certificate to be provided by the Servicer to the Issuer, the Trustee, each Rating Agency and the Authority, at least one Business Day before each Payment Date, and indicating:

- (a) the amount to be paid to the Holders of each tranche in respect of principal on such Payment Date in accordance with the Indenture,
- (b) the amount to be paid to the Holders of each tranche in respect of interest on such Payment Date in accordance with the Indenture,
- (c) the projected bond balance and the bond balance for each tranche as of that Payment Date (after giving effect to the payments on such Payment Date),
- (d) the amount on deposit in the Reserve Subaccount for each tranche as of that Payment Date (after giving effect to the transfers to be made from or into the Reserve Subaccount on such Payment Date),
- (e) the amount, if any, on deposit in the Excess Funds Subaccount as of that Payment Date (after giving effect to the transfers to be made from or into the Excess Funds Subaccount on such Payment Date),
- (f) the amounts paid to the Trustee since the preceding Payment Date pursuant to the Indenture,
- (g) the amounts paid to the Servicer since the preceding Payment Date pursuant to the Indenture, and
- (h) the amount of any other transfers and payments to be made on such Payment Date pursuant to the Indenture.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series 2013T OID” means the excess of (i) the “stated redemption price at maturity” over (ii) the issue price.

“Series 2013TE OID” means the excess of the sum of all amounts payable at the stated maturity of a Series 2013TE Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity.

“Service Area” means the two counties on Long Island — Nassau County (“Nassau County”) and Suffolk County (“Suffolk County”) (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its individually-owned municipal electric system) — and a portion of the Borough of Queens of The City of New York known as the Rockaways where the Authority, acting through LIPA, provides electric delivery service. For purposes of the Bonds and the collection of the Restructuring Charges, the “Service Area” is defined by the Securitization Law as the service area of LIPA as of July 29, 2013.

“Servicer” means LIPA or any subsequent owner of the T&D Assets.

“Servicer Compliance Certificate” means the annual compliance certificate provided by the Servicer pursuant to the Servicing Agreement.

“Servicer Default” means the occurrence of any one of the following events:

- (a) any failure by the Servicer to cause payments by or on behalf of Customers received by the Servicer from Restructuring Charges to be deposited into the Allocation Account or any failure to cause the Allocation Agent to transfer to the Trustee any required Remittance and cause other amounts received from Collateral to be deposited to the Collections Account that shall continue unremedied for a period of five (5) Business Days after written notice of such failure is received by the Servicer from the Issuer or the Trustee; or
- (b) any failure by the Servicer duly to observe or perform in any material respect any other covenant or agreement of the Servicer set forth in the Servicing Agreement, which failure:
  - (i) materially and adversely affects the Restructuring Property or the rights of the Bondholders, and
  - (ii) continues unremedied for a period of 60 days after written notice of such failure has been given to the Servicer by the Issuer, the Authority, the Allocation Agent, the Administrator or the Trustee or after discovery of such failure by an officer of the Servicer; or
- (c) any representation or warranty made by the Servicer in the Servicing Agreement proves to have been incorrect when made, which has a material adverse effect on the Issuer or the Bondholders and which material adverse effect continues unremedied for a period of 60 days after the date on which written notice thereof has been given to the Servicer by the Issuer, the Authority or the Trustee or after discovery of such failure by an officer of the Servicer, as the case may be; or
- (d) an Insolvency Event occurs with respect to the Servicer

“Servicing Agreement” means the Restructuring Property Servicing Agreement, expected to be dated as of the Issuance Date, between the Issuer and the Servicer, as the same may be amended and supplemented from time to time.

“Servicing Fee” means the annual compensation the Issuer will pay to the Servicer for all obligations of the Servicer to be performed under the Servicing Agreement. As long as LIPA is the Servicer, the Servicing Fee shall be 0.05% of the aggregate initial principal amount of the Bonds. The Servicing Fee for any Successor Servicer not affiliated with the owner of the T&D System Assets or performing similar services for the owner of the T&D System Assets may be higher than the Servicing Fee for LIPA; provided, however, that any Servicing Fee in excess of 0.60% of the aggregate initial principal amount of the Bonds shall be subject to approval by the Authority and the Trustee.

“Short-Term Bond” means a Series 2013TE Bond with a maturity not longer than one year.

“Sinking Fund Payment” means a payment upon redemption of the Term Bonds on a Payment Date as specified in the applicable Expected Sinking Fund Schedule set forth under “THE BONDS—Redemption—Mandatory Sinking Fund Redemption; Expected Sinking Fund Schedules,” or a payment without redemption prior to maturity that reduces the Outstanding Amount of such Term Bond to zero.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto. References to S&P are effective so long as S&P is a Rating Agency.

“State” means the State of New York.

“State Pledge” means the pledge of the State of New York as described in “THE SECURITIZATION LAW—State Pledge” in this Official Statement.

“Subaccounts” means the subaccounts of the Collection Account as described in this Official Statement.

“Subordinated General Resolution” means the Authority’s Electric System General Subordinated Revenue Bond Resolution adopted on May 20, 1998.

“Successor Servicer” is a successor to the Servicer designated or appointed pursuant to the terms of the Servicing Agreement.

“T&D System” is the electric transmission and distribution systems retained by LIPA as part of the LIPA/LILCO Merger.

“T&D System Assets” means the physically integrated system of electric transmission and distribution facilities (and other general property and equipment in connection therewith) owned by LIPA as of July 29, 2013, or thereafter acquired for use by LIPA or its successors in providing retail electric delivery to Customers in the Service Area.

“Taxable Premium Bond” means a Series 2013T Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series 2013T Bond other than “qualified stated interest”.

“Tariff” means any rate tariff filed with the PSC pursuant to the Securitization Law to evidence any Restructuring Charges.

“Termination Notice” means written notice by the Trustee or the Holders of a majority of the outstanding principal amount of the Bonds to the Servicer (and the Trustee if given by the Holders) terminating all the rights and obligations (other than the indemnity obligations and the obligation to continue performing its functions as Servicer until a Successor Servicer is appointed) of the Servicer under the Servicing Agreement.

“Term Bonds” means Bonds the retirement of which shall be provided for from scheduled periodic redemptions prior to maturity. The Series 2013T Bonds and the Series 2013TE-8 Bonds through the Series 2013TE-17 Bonds are Term Bonds.

“Treasury Regulations” means the regulations, including proposed or temporary regulations, promulgated under the Internal Revenue Code. References to specific provisions of proposed or temporary regulations shall include analogous provisions of final Treasury Regulations or other successor Treasury Regulations.

“True-Up” means a mechanism required by the Securitization Law and the Financing Order whereby the Servicer will provide a notice to the Issuer and the Authority of an intention to make an adjustment to the applicable Restructuring Charges based on actual collected Restructuring Charges and updated assumptions by the Servicer as to future collections of Restructuring Charges.

“True-Up Adjustment” means each of the Annual True-Up Adjustment, the Mid-Year True-Up Adjustment and the Optional True-Up Adjustment.

“Trust Estate” means the Collateral pledged to the Trustee.

“Trustee” means The Bank of New York Mellon.

“UCC” means, unless the context otherwise requires, the Uniform Commercial Code, as in effect in the State of New York, as amended from time to time.

“U.S. Holder” means a beneficial owner of a Series 2013T Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

“Underwriter” means each underwriter of the Bonds.

“Unsolicited Ratings” means ratings on the Bonds issued by an NRSRO other than the NRSRO hired by the seller.

“Upfront Financing Cost” means the expenses associated with preparing and obtaining approval of the Financing Order, the funding of the Reserve Subaccount, and the fees and expenses associated with the structuring, marketing and issuance of the Bonds, including counsel fees payable by the Authority or the Underwriters, advisory fees payable by the Authority, underwriting fees and expense, original issue discount, rating agency fees, printing and marketing expenses, compliance fees, listing fees, bond issuance charges, fees and expenses of the Authority’s advisors and outside counsel, any taxes or payments in lieu of taxes payable by the Issuer or the Authority with

respect to the issuance of the Bonds or the sale of the Restructuring Property and the amounts advanced by the Authority for the payment of any of the foregoing.

“Upfront Financing Costs Subaccount” means one of the four subaccounts of the Collection Account.

“Written Notice”, “written notice” or “notice in writing” means notice in writing which may be delivered by hand or first class mail and also means electronic transmission.

**APPENDIX B**  
**PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL**  
**[LETTERHEAD OF HAWKINS DELAFIELD & WOOD LLP]**

December \_\_, 2013

Utility Debt Securitization Authority  
c/o Long Island Power Authority  
333 Earle Ovington Blvd.  
Uniondale, NY 11553

Ladies and Gentlemen:

We have acted as Bond Counsel to the Utility Debt Securitization Authority (the “Bond Issuer”) in connection with the issuance \$482,934,000 Utility Debt Securitization Bonds, Series 2013T (the “Series 2013T Bonds”) and \$1,539,390,000 Utility Debt Securitization Bonds, Series 2013TE (the “Series 2013TE Bonds,” and collectively with the Series 2013T Bonds, the “Bonds”) by the Bond Issuer, a special purpose corporate municipal instrumentality of the State of New York (the “State”) constituting a body corporate and politic, a political subdivision of the State and a public benefit corporation. In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this letter. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The Bonds are authorized and issued pursuant to Part B of Chapter 173, Laws of New York, 2013 (the “Act”), a resolution of the Bond Issuer adopted November 21, 2013 (the “Resolution”), and a Bond Indenture, dated as of December \_\_, 2013 (the “Bond Indenture”), by and between the Bond Issuer and The Bank of New York Mellon, as trustee (the “Bond Trustee”). The Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Bond Indenture.

Capitalized terms used herein and not defined herein are used as defined in the Bond Indenture.

We have relied, with your consent, upon the opinion of Morgan, Lewis & Bockius LLP as to the enforceability of each of the Sale Agreement, the Servicing Agreement and the Administration Agreement (collectively, the “Ancillary Agreements”) against the Long Island Power Authority (the “Authority”) or Long Island Lighting Company d/b/a LIPA (“LIPA”), as applicable, and upon the opinion of Carter Ledyard & Milburn LLP as to the enforceability of the Bond Indenture against the Trustee.

Subject to the foregoing, we are of the opinion that:

1. The Bond Issuer is duly created and is validly existing as a special purpose corporate municipal instrumentality, constituting a body corporate and politic, a political subdivision of the State and a public benefit corporation, under the laws of the State, including the Act. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matters of this opinion letter.
2. Pursuant to the Act, the Bond Issuer has the power and authority to adopt the Resolution, to execute and deliver the Bond Indenture and the Ancillary Agreements and to issue the Bonds.
3. The Resolution has been duly adopted by the Bond Issuer.
4. The Bond Indenture has been duly authorized, executed and delivered by the Bond Issuer and is a valid and binding agreement of the Bond Issuer, enforceable against the Bond Issuer in accordance with its terms.
5. The Bonds have been duly and validly authorized and issued by the Bond Issuer in accordance with provisions of the Act and the Bond Indenture and are valid and binding obligations of the Bond Issuer, payable only out of the Collateral pledged for such payment by the Bond Issuer under the Bond Indenture, subject to the provisions of the Bond Indenture permitting the prior application of moneys held under the Bond Indenture for the purposes and on the terms and conditions set forth therein.



6. By operation of subdivision 2 of Section 7 of the Act, the provisions of the Bond Indenture create a first priority Statutory Lien on the Collateral in favor of the Bond Trustee for the benefit of the Bondholders, and the Statutory Lien is valid, perfected and enforceable against the Bond Issuer and all third parties without any further public notice. The description of the Restructuring Property in the Bond Indenture is sufficient for purposes of the Statutory Lien and the Act.

7. Pursuant to the Act, no Bond shall constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the State or of any county, municipality or any other political subdivision, agency or instrumentality of the State. The Act further provides that the issuance of the Bonds does not obligate the State or any county, municipality or any other political subdivision, agency or instrumentality of the State to levy any tax or make any appropriation for payment of the principal of or interest on the Bonds.

8. The Ancillary Agreements are valid and binding agreements of the Bond Issuer, enforceable against the Bond Issuer in accordance with their respective terms.

9. Any authorization by, registration with, consent of, or approval by, any governmental agency, board, or commission that is necessary for the execution, delivery and issuance by the Bond Issuer of the Bonds, and the execution and delivery by the Bond Issuer of the Bond Indenture and the Ancillary Agreements, has been obtained.

10. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Series 2013TE Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013TE Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 10, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificates delivered on the date hereof by the Bond Issuer, the Authority and LIPA with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the Series 2013TE Bonds from gross income for federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Bond Issuer, the Authority and LIPA with procedures and covenants set forth in such Tax Certificates and with the tax covenants set forth in the Indenture, the Sale Agreement and the Servicing Agreement as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2013TE Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2013TE Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

11. Under the Code, interest on the Series 2013T Bonds is included in gross income for Federal income tax purposes.

12. Under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York), and the Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

We call your attention to the fact that the enforceability of rights and remedies with respect to the Bonds, the Bond Indenture and the Ancillary Agreements may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws relating to or affecting the rights of creditors generally, whether heretofore or hereafter enacted, and general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), including that the availability of specific performance or injunctive relief is subject to the discretion of the court before which any such proceeding is brought.

Except as stated in paragraphs 10, 11 and 12 above, we express no opinion regarding any other federal or state tax consequences with respect to the Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2013TE Bonds, or under state and local tax law.

We express no opinion herein as to the accuracy, adequacy, sufficiency or completeness of any financial or other information that has been or will be supplied to purchasers or prospective purchasers of the Bonds.

This letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material or matters of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

**APPENDIX C**

**PROPOSED FORM OF OPINION OF BOND COUNSEL  
RELATING TO NEW YORK CONSTITUTIONAL MATTERS**

**[LETTERHEAD OF HAWKINS DELAFIELD & WOOD LLP]**

December \_\_, 2013

To Each Person Listed on  
the Attached Schedule I

Re: Utility Debt Securitization Authority Restructuring Bonds  
Certain New York State Constitutional and Statutory Issues

Ladies and Gentlemen:

We have acted as bond counsel to the Utility Debt Securitization Authority (the “Bond Issuer”) and the Long Island Power Authority (the “Authority”) in connection with the issuance of the Bond Issuer’s Utility Debt Restructuring Bonds (the “Bonds”) described below, the proceeds of which will be used by the Bond Issuer to purchase from the Authority all of the Authority’s right, title and interest in certain restructuring property (as so transferred, the “Restructuring Property”), as more fully described below, and the other related transactions referred to and described below.

The Bonds will be secured by a statutory lien on the Restructuring Property. Generally, “restructuring property” is a property right created under Part B of Chapter 173 of the Laws of New York, 2013 (the “Statute”), pursuant to a restructuring cost financing order issued by the Authority. The Authority approved and adopted a Restructuring Cost Financing Order on October 3, 2013 (the “Financing Order”) that, among other things, authorized the creation and sale of certain restructuring property (the “Restructuring Property”), which includes the irrevocable right to impose, bill, collect and receive certain non-bypassable transition charges (as adjusted from time to time) (the “Charges”) from all individuals and legally-recognized entities taking electric delivery service (the “Customers”) in the geographical area within which Long Island Lighting Company, doing business under the name LIPA (“LIPA”), provided electric transmission and distribution service as of July 29, 2013 (the “Service Area”).

The Bond Issuer was created by Section 4 of the Statute on July 29, 2013 as a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York (the “State”).

**THE TRANSACTION**

On the date hereof, the Authority sold the Restructuring Property to the Bond Issuer under the Restructuring Property Purchase and Sale Agreement dated as of December \_\_, 2013 between the Authority and the Bond Issuer and the related Bill of Sale dated December \_\_, 2013 (such Sale Agreement and Bill of Sale, together, the “Sale Agreement”) for an amount in cash (the “Proceeds”). Under the Restructuring Property Servicing Agreement dated as of December \_\_, 2013 between LIPA, in its capacity as Servicer, and the Bond Issuer (the “Servicing Agreement”), the Authority has agreed to service the Restructuring Property. Under the Administration Agreement dated as of December \_\_, 2013 (the “Administration Agreement”) between LIPA, as Administrator (the “Administrator”), and the Bond Issuer, the Administrator has agreed to perform certain administrative services on behalf of the Bond Issuer.

On the date hereof, the Bond Issuer issued the Bonds under the Bond Indenture dated as of December \_\_, 2013 (the “Indenture”) between the Bond Issuer and The Bank of New York Mellon, as Bond Trustee (the “Bond Trustee”). The Charges are the only source of payment of debt service on the Bonds under the Indenture other than a debt service reserve fund initially funded with Bond proceeds.

Pursuant to the Bond Purchase Agreement dated December \_\_, 2013 (the “Bond Purchase Agreement”) among the Bond Issuer and Goldman, Sachs & Co. and Morgan Stanley & Co., LLC, as representatives of the

several Underwriters, including themselves, named therein, such Underwriters have agreed to purchase the Bonds from the Bond Issuer.

As used herein, the term “Transaction Documents” means, collectively, the Sale Agreement, the Servicing Agreement, the Administration Agreement, the Bonds, the Indenture and the Bond Purchase Agreement, and “Transaction” means the transactions contemplated by the Transaction Documents. Capitalized terms used herein that are not otherwise defined shall have the meanings assigned to them in the Indenture.

### **FACTS AND ASSUMPTIONS**

In connection with the opinions set forth below, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of the following:

- (a) the Statute;
- (b) the Financing Order;
- (c) the Transaction Documents;
- (d) the Official Statement, dated December \_\_, 2013, relating to the offer and sale of the Bonds; and
- (e) the opinion of Morgan Lewis & Bockius LLP addressed to you as of this date (the “Morgan Lewis Opinion”) with respect to the “takings clause” of the Constitution of the United States.
- (f) such other documents relating to the Transaction as we have deemed necessary or advisable as a basis for such opinions.

We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Authority, LIPA and the Bond Issuer, agreements, certificates of public officials, certificates of officers, trustees or other representatives of the Authority, LIPA, the Bond Issuer and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein. We have made no independent investigation of the facts referred to herein, and with respect to such facts, we have relied, for the purpose of rendering the opinions set forth herein and except to the extent any such information constitutes a statement of legal conclusion expressed in such opinions or as otherwise stated herein, exclusively on the factual statements contained and matters provided for in the documents referenced above, including the factual representations, warranties and covenants contained therein as made by the respective parties thereto and on certificates of the Authority, LIPA and the Bond Issuer and their respective directors or trustees, as the case may be, officers and other representatives and of public officials.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photo static copies and the authenticity of the originals of such latter documents. In making our examination of these documents, we have assumed: that each of the parties to such documents is duly organized and validly existing under the laws of its jurisdiction of organization and each party to the Transaction Documents is authorized to do business and is in good standing in each other jurisdiction in which it is required to be authorized to do business; that the parties to such documents had the power, corporate or other, to enter into and perform all obligations thereunder; and the due authorization by all requisite action, corporate or other, the due execution and delivery by the parties of the Transaction Documents, and the validity and binding effect thereof upon such parties and the enforceability thereof against such parties.

We express no opinion herein as to the laws of any jurisdiction other than federal laws and the laws of the State.

### **OPINIONS REQUESTED**

The Authority has requested that we furnish to you our opinion as to:

- (1) Whether a court would uphold the validity of the New York State Pledge (as defined below) under the due process clause, Article 1, § 6 (the “State Due Process Clause”) of the Constitution of the State of New York (the “State Constitution”) as construed to protect contractual obligations.
- (2) Whether a court (i) would conclude that Bondholders (or the Bond Trustee on their behalf) could successfully challenge under the State Due Process Clause a repeal or an

amendment of the Statute by the State or if the State took any other action or failed to take any action required by the New York State Pledge (as defined below) (any such repeal, amendment, action or inaction is herein referred to as an “Impairment Action”) after the Bonds are issued, but before they are fully paid, that would (a) appropriate the Restructuring Property or deny productive use of the Restructuring Property; (b) destroy the Restructuring Property; or (c) substantially reduce, alter or impair the value of the Restructuring Property (other than a law passed by the Senate and Assembly of the State (the “State Legislature”) in the valid exercise of the State’s police power necessary to safeguard the public, health, safety and welfare).

- (3) Whether preliminary injunctive relief would be available under State law to delay implementation of (i) an Impairment Action that limits, alters, impairs or reduces the value of the Restructuring Property or the Transition Charges pending final adjudication of a claim challenging such Impairment Action under Article 1, Section 6 of the State Constitution and assuming a favorable final adjudication of such claim, whether relief would be available to prevent permanently the implementation of such Impairment Action.
- (4) Whether a court would find a compensable taking under the takings clause of the State Constitution (Article 1, § 7) (the “State Takings Clause”) if (a) it concludes that the rights to the Restructuring Property (“Rights”) are property of a type protected by the State Takings Clause and (b) the State enacts a law that, without paying just compensation to the Bondholders, (i) permanently appropriates the Rights or denies all economically productive use of the Rights; or (ii) destroys the Rights, other than in response to emergency conditions; or (iii) substantially reduces, alters or impairs the value of the Rights, if the law unduly interferes with the Bondholders’ reasonable investment backed expectations.
- (5) Whether the provisions of the Statute are severable.
- (6) Whether voters in the State have authority to amend or repeal the Statute by voter initiatives or referenda.

#### **PLEDGE AND AGREEMENT OF THE STATE OF NEW YORK**

The Statute provides in Section 9 that the State of New York “pledges to and agrees with” the holders of restructuring bonds, which includes the holders of the Bonds:

that the state will not in any way take or permit any action that limits, alters or impairs the value of restructuring property or, except as required by the adjustment mechanism described in the restructuring cost financing order, reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(The above-quoted provisions are herein referred to as the “New York State Pledge.”) Section 9 also permits any issuer of restructuring bonds “to include the [New York State] pledge . . . in the restructuring bonds, ancillary agreements and documentation related to the issuance and marketing of the restructuring bonds.” We note that the New York State Pledge is set forth in the Bonds and the Indenture, that the existence of the New York State Pledge is disclosed in the preliminary and final Official Statements for the Bonds furnished to prospective investors and that the obligation of the Underwriters to purchase the Bonds is conditioned upon the inclusion of the New York State Pledge in the Bonds and in the Indenture.

## THE STATE DUE PROCESS CLAUSE

### Discussion of State Due Process Clause.

Article I, Section 6 of the State Constitution provides that: “No person shall be deprived of life, liberty or property without due process of law”.

Certain contract rights have been held to be protected by the State Due Process Clause. In *Patterson v. Carey*, 41 N.Y.2d 714, 395 N.Y.S.2d 411 (1977), the Court of Appeals applied the State Due Process Clause to uphold bondholders’ property rights when the State Legislature rescinded an increase in tolls charged motorists by the Jones Beach State Parkway Authority and provided that future increases could not be imposed unless the Parkway Authority complied with a new four stage review process. According to the Patterson court, “the statute deprive[d] the bondholders of property without due process of law in violation of the State Constitution.” (*Id.* at 719-720).

“Quite apart from any question presented by the Federal impairment clause, the State may not deprive a party to a contract of an essential contractual attribute without due process of law. ‘Depriving an owner of property of one of its essential attributes, is depriving him of his property within the constitutional provision’ and absent due process, works an impermissible ‘forfeiture of the right given by the contract.’ (*People ex rel. Manhattan Sav. Inst. of City of N.Y. v. Otis*, 90 N.Y. 48, 52a (Andrews, Ch. J.)) In this case, the legislation attempted to invalidate claims against a bond issuer upon lost bearer bonds by anyone but the recipient of a duplicate bond even though good faith holders in due course presented the negotiable bonds for payment. Such possessors of lost bonds were remitted to suing the recipients of the duplicate. This legislative scheme was invalidated as a deprivation of an essential attribute of the bondholder’s rights:

“a legislative declaration that upon the publication of notice, a negotiable security shall no longer be transferable, is not due process of law, working a forfeiture of the right given by the contract.”

*Patterson* protected the contractual commitment of the Parkway Authority to raise and collect sufficient tolls to punctually pay and redeem the Parkway Authority’s bonds. Because the tolls in *Patterson* were “the sole source of funds for bond repayment,” the Court explained that “any limitation on the authority’s power to collect a toll sufficient to pay the bonds deprives the bondholders of an essential attribute of their contract with the authority and with the State and jeopardizes their investment.” (*Id.* at 720).

In addition to the affirmative promise of the Parkway Authority to raise and collect sufficient tolls to pay bondholders, the State had itself pledged “not to limit or alter the rights vested in the authority to the detriment of bondholders.” (*Id.* at 717). The *Patterson* court stated that “[w]here a statute is challenged on non-procedural grounds as violative of due process, the test is whether there is ‘some fair, just and reasonable connection’ between the statute and ‘the promotion of the health, comfort, safety and welfare of society.’ (E.g., *Montgomery v Daniels*, 38 N.Y.2d 41, 54, 378 N.Y.S.2d 1, 11; *Nettleton Co. v Diamond*, 27 NY2d 182, 193, 315 N.Y.S.2d 625 app; dsmd; sub nom. *Reptile Prods. Assn. v Diamond*, 401 U.S. 969, 91 S.Ct. 1201, 28 L.Ed.2d 319; *People v Bunis*, 9 N.Y.2d 1,4; 210 N.Y.S.2d 505, 506). Finding that there was no fair, just or reasonable connection between the statutory procedure for increasing tolls and the goal of curtailing traffic congestion, the Court ruled: “the statute is arbitrary and deprives bondholders of a contractual right without due process of law.” (*Id.* at 721).

The Bondholders would have a very strong argument based on *Patterson* and the plain meaning of the Statute that the New York State Pledge is “property” warranting the protections afforded by the State Due Process Clause.

As was the case in *Patterson*, the source of payment of the Bonds is limited to revenues derived from the rights protected by the State pledge set forth in the Statute. The New York State Pledge is very similar to the State pledge at issue in *Patterson*. Indeed, it more clearly and directly expresses the intention to protect the source of payment of the Bonds than the language of the State pledge relating to the Parkway Authority bonds, which was somewhat more generally stated presumably to reflect the nature of the Parkway Authority as an operating entity. In addition, the fact that the New York State Pledge expressly protects the Restructuring Property, which by the terms of the Statute is “property,” also lends substantial support to the argument that the New York State Pledge itself is property for purposes of the State Due Process Clause.

Opinion as to State Due Process Clause.

Based upon our review of relevant judicial authority, including as discussed in this opinion, but subject to the qualifications, limitation and assumptions set forth herein, it is our opinion that, after the Bonds are issued, but before they are fully paid, a reviewing court of competent jurisdiction applying New York law, in a properly prepared and presented case, would conclude that (i) the New York State Pledge constitutes property within the meaning of the State Due Process Clause, and (ii) an Impairment Action by the State would violate the State Due Process Clause, absent any overriding fair, just and reasonable connection of the Impairment Action to the promotion of the health, comfort, safety and welfare of society.

**INJUNCTIVE RELIEF UNDER STATE LAW**

Discussion of Injunctive Relief Under State Law.

The availability of preliminary injunctive relief under New York law is governed by Article 63 of the Civil Practice Law and Rules (“CPLR”) and the traditional principles of equity to be applied thereby. CPLR Section 6301, entitled “Grounds for preliminary injunction and temporary restraining order,” authorizes such a remedy to maintain the *status quo* “in any action where it appears that the defendant threatens or is about to do . . . an act in violation of the plaintiff’s rights respecting the subject of the action, and tending to render the judgment ineffectual” or “where the plaintiff has demanded and would be entitled to a judgment restraining the defendant from the commission or continuance of an act, which if committed or continued during the pendency of the action, would produce injury to the plaintiff.” In each case, a showing is required “that immediate and irreparable injury, loss or damage will result unless the defendant is restrained.” (CPLR §6301).

Judicial “discretion” permeates all aspects of the inquiry as to whether the application for temporary relief will be granted. “Perhaps the most instructive point about the preliminary injunction is that its granting is discretionary with the court.” (Siegel, New York Practice 500 (West 3rd Edition 1999) citing *Sartwell v. Field*, 68 N.Y. 341(1877)).

“Under longstanding judicial precedent, the movant in most cases must . . . demonstrate three things: (1) a likelihood of success on the merits of the action; (2) the danger of irreparable injury in the absence of preliminary injunctive relief; and (3) a balance of equities in favor of the moving party. See, e.g. *Nobu Next Door, LLC v. Fine Arts Housing, Inc.*, 2005, 4 N.Y. 3d 839, 840, 800 N.Y.S. 2d 48, 49. In applying these requirements, the court must ‘weigh a variety of factors’, and the matter is committed to the court’s sound discretion. *Doe v. Axelrod*, 1988, 73 N.Y. 2d 748, 750, 536 N.Y.S. 2d 44,45 53.” (V. Alexander, McKinney’s Practice Commentaries, C6301:1, p.12 (2010)).

Because the application of the standards for the issuance of a preliminary injunction are committed to the sound discretion of the courts, the prediction of how and when such discretion will in fact be exercised must necessarily be highly dependent upon the exact threatened impact upon bondholder security. We note that the lower court in *Patterson* granted a preliminary injunction, as to which no appeal was taken, against enforcement of the legislation involved in that case without any showing of a possible future payment default.

Opinion as to Injunctive Relief Under State Law.

Based upon our review of relevant judicial authority, including as discussed in this opinion, but subject to the qualifications, limitation and assumptions set forth herein, it is our opinion that, after the Bonds are issued, but before they are fully paid, a reviewing court of competent jurisdiction applying New York law, in a properly prepared and presented case, should conclude that preliminary injunctive relief is available to maintain the *status quo* pending trial, and that, following the trial, assuming the court determined that the Impairment Action was violative of the State Due Process Clause, permanent injunctive relieve should be awarded to protect the New York State Pledge from the Impairment Action absent any overriding health, comfort, safety and welfare of society justification.

## THE STATE TAKINGS CLAUSE

### Discussion of the State Takings Clause.

Article 1, Section 7(a) of the New York Constitution provides that: “Private property shall not be taken for public use without just compensation.” Its text is nearly identical to the Fifth Amendment of the United States Constitution which, among other things, states in relevant part: “nor shall private property be taken for public use, without just compensation.” This clause is commonly referred to as the Takings Clause of the United States Constitution, or the Federal Takings Clause, and is referred to herein as the “Federal Takings Clause.” The Fourteenth Amendment of the United States Constitution makes the Fifth Amendment, including the Federal Takings Clause, applicable to any state action. See *Webb’s Fabulous Pharmacies, Inc. v. Beckwith*, 449 U.S. 155, 101 S.Ct. 446 (1980). As a result, as noted below, New York courts have used U.S. Supreme Court decisions as (a) (the) basis for their interpretation of the New York Takings Clause. We note that you have received the Morgan Lewis Opinion on this subject. We have reviewed the analysis of the Federal Takings Clause set forth in the Morgan Lewis Opinion. We concur with the analysis set forth therein, and are taking such analysis into account in our opinion set forth below.

In evaluating takings claims, the U.S. Supreme Court has made a factual inquiry to evaluate takings claims on a case-by-case basis rather than adopt a particular formula. The U.S. Supreme Court stated in *Easter Enterprises v. Apfel*, 524 U.S. 498, 118 S.Ct. 2131 (1998), that “the process for evaluating a regulation’s constitutionality involves an examination of the ‘justice and fairness’ of the governmental action. *Id.* at 523. “That inquiry its nature, does not lend itself to any set formula...and the determination whether ‘justice and fairness’ require that economic injuries caused by public action [must] be compensated by the government, rather than remain disproportionately concentrated on a few persons,’ is essentially ad hoc and fact intensive. (*Id.* at 523, quoting *Kaiser Aetna v. United States*, 444 U.S. 164, 175, 100 S.Ct. 383, 390 (1979) (internal quotation marks omitted)). Moreover, “‘It does not rest with the public, taking the property through ... the Legislature, its representative, to say what compensation shall be paid, or even what shall be the rule of compensation’” *Saratoga Water Services, Inc. v. Saratoga County Water Authority*, 83 N.Y.2d 205, 608 N.Y.S.2d 952 (1994) quoting *Monongahela Nav. Co. v. United States*, 148 U.S. 312, 327, 13 S.Ct. 622, 626 (1893); see also, *Matter of Rochester Urban Renewal Agency [Patchen Post]*, 45 N.Y.2d 1, 8, 407 N.Y.S.2d 641 (1978).

In the past, New York courts have used U.S. Supreme Court cases construing the Federal Takings Clause as the basis for their interpretations of the State Takings Clause. See, e.g., *Putnam County Nat. Bank v. City of New York* 37 A.D.3d 575, 829 N.Y.S.2d 661 N.Y.A.D. 2 Dept. (2007), *Consumers Union U.S., Inc. v. State of New York*, 5 N.Y.3d 327, 806 N.Y.S.2d 99 (2005), *Birnbaum v. State* 73 N.Y.2d 638, 543 N.Y.S.2d 23 (1989). For example, in *Consumers Union*, the New York Court of Appeals, as have many other U.S. and state courts, applied the test used in the landmark case, *Penn. Central Transp. Co. v. City of New York*, 438 U.S. 104, 98 S.Ct. 2646 (1978) as the basis for its analysis under a State Takings Clause claim. Following *Penn. Central*, once a court determines that the rights constitute “property” for purposes of a takings analysis, it should then examine whether the state action constitutes a compensatory taking. Courts will generally make an *ad hoc* factual determination of takings allegations based on an examination of (i) the character of the government action; (ii) the economic impact of the regulation; and (iii) the extent to which the regulation interfered with distinct investment-backed expectations. See *Consumers’ Union, supra*, and *Lingle v. Chevron, USA, Inc.* 544 U.S. 528, 125 S.Ct. 2074 (2005).

In order to determine whether any governmental action triggers a compensable regulatory taking of intangible property under the State Takings Clause, a court must determine, first, whether the claimants have a property interest for purposes of the State Takings Clause. If so, the court must then determine whether the government’s action effects a compensable taking of that protected property interest. See *Ruckelshaus*, 467 U.S. at 1000-01.

A court’s response to a State Takings Clause challenge will be affected by the nature of any Impairment Action. An Impairment Action with respect to the Bonds could take many forms, including, among others, legislation that (i) repeals the New York State Pledge, (ii) invalidates the imposition of the Transition Charges or (iii) changes the regulatory framework for setting utility rates in such a way that the change adversely impacts the collection of the Transition Charges. A discussion of applicable principles that courts have applied in analyzing the effect of an alleged taking follows.



A. Is there a property interest for purposes of the State Takings Clause?

In order to hold that the Rights constitute a compensable taking, a reviewing court would need to conclude that the Rights are property of a type protected by the State Takings Clause. Courts in New York have found contractual rights to be “property” that merits protection under the State Takings Clause. The Court of Appeals has held that under the New York Constitution, the right of a contractor for the performance of a public work to prospective profits under his contract is a species of property within the protection of State Takings Clause (see *Danolds v. State*, 89 N.Y. 36 (1882)). The Court of Appeals court also has held that a right to plant an oyster bed under public waters is a private right, and that the destruction of the bed by sewage discharged thereon from a sewer of a town is a direct invasion of a private right and taking of private property within the meaning of State Takings Clause (see *Huffmire v. City of Brooklyn* 162 N.Y. 584 (1900)). A New York court has also found that ordinances granting town residents exclusive rights to town fisheries constitute “property” that could not be taken without compensation. See *State v. Freeholders and Commonalty of Southampton*, 99 A.D.2d 804, 472 N.Y.S.2D 394 (1984)).

New York courts have regularly looked to whether a state action has impaired investment-backed expectations of property owners in order to determine whether a regulatory taking has occurred. See *Consumers Union, supra*; see also *Matter of Smith v. Town of Mendon*, 4 N.Y.3d 1, 789 N.Y.S.2d 696 (2004). As noted in the Morgan Lewis Opinion, it is well established under federal law that investment backed expectations can be property for the purposes of the takings analysis; however, an independent source, such as state law or existing rules, and not the United States Constitution, must create the protected property right. As discussed above, in *Patterson*, where the State attempted to rescind an increase in tolls and create a new provision that tolls could be raised only through certain procedures, bondholders brought suit asserting that the modification of the toll revenue stream backing their bonds was an unconstitutional deprivation of “property,” such property being not only rights relating to the imposition of tolls and their collection, but also the State pledge itself. The New York Court of Appeals held in their favor, finding that the State had violated the State Due Process Clause. See *Patterson, supra*. Although the case was decided under the State Due Process Clause, it would be reasonable to expect similar reasoning with respect to a claim brought under the State Takings Clause.

The U.S. Supreme Court has also held that property not constituting real property or tangible personal property may nevertheless be entitled to protections afforded by the Federal Takings Clause. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-1004 104 S.Ct. 2862 2873-2874 (1984). In *Ruckelshaus*, the Court determined that trade secrets, which are cognizable under state law, constitute property rights for purposes of the federal takings clause because a trade secret can be assigned, form the *res* of a trust, and pass to a trustee in bankruptcy. *Ruckelshaus*, 467 U.S. at 103. Additionally, in *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 208 (1989), the Court recognized that a utility’s rights to a fair return on investment is a property right for purposes of the federal takings clause. A New York court would likely undertake a similar analysis of, and reach a similar conclusion regarding, the Rights under the Statute in determining whether they constitute “property” for purposes of the State Takings Clause.

Bondholders would have a strong argument based on the U.S. Supreme Court’s decision in *United States Trust Co. of New York v. New Jersey*, 431 U.S. 1, 97 S.Ct. 1505 (U.S.N.J. Apr 27, 1977), that the Rights are “property” warranting the protections afforded by the State Takings Clause. In *U.S. Trust Co.*, the bond resolution securing Port Authority bonds included a covenant that the revenues supporting the subject Port Authority bonds would not be diverted for unauthorized purposes. The New Jersey Legislature later repealed the covenant, and the U.S. Supreme Court found the repeal to impair the contract rights of the bondholders. In dicta, the Supreme Court recognized that “contract rights are a form of property and as such may be taken for a public purpose provided that just compensation is paid.” 431 U.S. at 19, n. 16. (See also *Danolds, supra*.) The Supreme Court stated that states are free to exercise their power of eminent domain to abrogate contractual rights upon payment of just compensation.<sup>1</sup>

More directly, the Statute expressly creates the Restructuring Property as a property right under State law for purposes of the Transaction: “Restructuring property shall constitute a vested, presently existing property right notwithstanding the fact that the value of the property right will depend on further acts that have not yet occurred, including but not limited to, consumers remaining or becoming connected to the (T&D) system assets and taking

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<sup>1</sup> However, at least one court has noted that the government’s interference with contractual rights does not necessarily constitute a taking of property if the contract deals with a subject matter within the control of Congress. See *Greenbriar v. U.S.*, 193 F.3d 1348, 1356 (Fed. Cir. 1999).

electric delivery service, the imposition and billing of transition charges, or, in those instances where consumers are customers of LIPA or any successor owner of the T&D system assets, such owner performing certain services.” Part B of Chapter 173 of the Laws of New York, 2013, Section 2, Paragraph 13; See also subsection 1(a) of Section 7.

The cases discussed above, together with the Statute, provide strong support for the position that the rights of the Bondholders in the Restructuring Property are property for purposes of the State Takings Clause. As discussed above, however, the nature of any Impairment Action would certainly influence a court’s analysis of whether a compensable taking exists. Some of the factors a court might examine to determine whether such State action would rise to the level of a “taking” are considered below.

**B. If there is a property interest, does the Impairment Action effect a taking of that property interest for purposes of the State Takings Clause?**

In determining whether an Impairment Action constitutes a taking, a reviewing court would evaluate the nature of the governmental action and weigh the public purpose served thereby against the degree to which it interferes with bondholders’ “legitimate property interests or distinct investment-backed expectations.” *Consumers Union, supra* at 330. “Governmental regulation of private property effects a taking if it is so onerous that its effect is tantamount to a direct appropriation or ouster.” *Consumers Union, supra*. The U.S. Supreme Court has described the inquiry regarding the character of governmental action as an assessment of, for instance, “whether it amounts to a physical invasion or instead merely affects property interests through some public program adjusting the benefits and burdens of economic life to promote the common good.” *Lingle, supra* at 539. In *Patterson*, the Court of Appeals based its determination under the State Due Process Clause partly on investors’ expectations, finding that “[s]ince the toll is the sole source of funds for bond repayment, any limitation on the authority’s power to collect a toll sufficient to pay the bonds deprive[d] the bondholders of an essential attribute of their contract with the authority and with the State and jeopardize[d] their investment.” *Patterson, supra* at 720.

Although the U.S. Supreme Court has indicated that regulatory actions generally will be deemed *per se* takings for Fifth Amendment purposes where government requires an owner to suffer a permanent physical invasion of her property, see *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 102 S.Ct. 3164 (1982), or where regulations completely deprive an owner of “all economically beneficial us[e]” of her property, *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1019, 112 S.Ct. 2886 (1992), the *Consumers Union* court suggested that the application of *Loretto* is limited to a “direct physical invasion” of property. See *Consumers Union, supra* at 359. Moreover, because the three inquiries reflected in *Loretto*, *Lucas*, and *Penn Central* all aim to identify regulatory actions that are functionally equivalent to a direct appropriation of or ouster from private property, each of them focuses upon the severity of the burden that government imposes upon property rights (see *Lingle, supra*, at 530). A New York court would be unlikely to find a compensable taking without an inquiry into the nature of any Impairment Action, balanced against investment-backed expectations of bondholders.

Bondholders would have a strong argument that distinct, investment-backed obligations were formed by the Statute, which contains the New York State Pledge providing that, subject to the exceptions therein, the State will not in any way take or permit any action that limits, alters or impairs the value of Restructuring Property or reduce, alter or impair transition charges. Among other factors which might be noted in support of such an argument, the New York State Pledge is included in the Bonds and in the Indenture as part of an express contract with the holders of the Bonds. The New York State Pledge is also described in the Official Statement and the inclusion of the New York State Pledge in the Indenture and the Bonds is a condition to the obligation of the underwriters to purchase the Bonds under the Bond Purchase Agreement.

If the State enacts a law that does not pay just compensation to the Bondholders, the Bondholders would likely argue that they would not have invested in the Bonds in the absence of the State’s undertaking contained in the New York State Pledge and, therefore, that the New York State Pledge created distinct, investment-backed expectations. See *Consumers’ Union, supra*.

To determine whether a compensable taking had occurred, a reviewing court would consider applying principles developed in the land use context to an analysis of the rights of the Bondholders. Those principles would require an analysis of whether the State action denied the Bondholders all economically beneficial or productive use of the rights, such as preventing the use of the Rights to pay the Bonds. See *Consumers’ Union, supra* (applying principles developed in *Lingle, supra* and *Penn. Central, supra*).

A court's response to a State Takings Clause challenge will be affected by the nature of the action taken to impair the Rights, which could include legislation that: (i) repeals or alters the New York State Pledge; (ii) prevents the imposition of the Charges; (iii) revises the regulatory basis for establishing the Charges in such a way that adversely impacts the collection of the Charges; (iv) diverts the Rights from payment of the Bonds to other public purposes; or (v) adversely affects the assets that generated the Charges.

Because the New York jurisprudence has suggested that an inquiry into Bondholders' investment-backed expectations is necessary for a takings determination, our opinion assumes that an Impairment Action, by its nature, would impact the economic interests of Bondholders with a magnitude sufficient to constitute an undue interference with Bondholders' economic interests and Bondholders' distinct, investment-backed expectations.

With respect to the rights of the Bondholders in the Restructuring Property, while the character of any future Impairment Action cannot be known at this time, any such Impairment Action would likely not constitute a physical invasion and would presumably ostensibly be in furtherance of an important public policy. Although the effect of any future Impairment Action also cannot be known at this time, any such Impairment Action that prevented the payment of the Bonds would likely be found to have a serious economic impact on the Bondholders. In any event, it seems that an Impairment Action that prevented the timely payment of principal and interest on the Bonds would interfere with the Bondholders' investment-backed expectations because timely payment of the Bonds is the primary expectation of the Bondholders. Additionally, the New York State Pledge itself gives rise to these reasonable investment backed expectations on the part of the Bondholders. The United States Supreme Court has held that a government "guarantee" of confidentiality could form the basis for such an expectation. *Ruckelshaus*, 467 U.S. at 1011. The Bondholders could argue that they would not have invested in the Bonds in the absence of the government "guarantee" contained in the New York State Pledge and, thus, in accordance with *Ruckelshaus*, that the New York State Pledge created reasonable investment backed expectations. The State has gone to great lengths to give credence to the New York State Pledge, including authorizing its inclusion on the Bonds and other documents. Therefore, we believe that it is reasonable for the Bondholders who have invested their funds in the Bonds to expect that the State Legislature will honor the New York State Pledge.<sup>2</sup>

However, New York courts have concluded that the just compensation which the New York Constitution, Article I, Section 7(a), requires to be paid to the owner of property taken under the power of eminent domain cannot be reduced to inflexible formulas or inexorable rules. See *Saratoga Water Services, Inc. v. Saratoga County Water Authority*, 83 N.Y.2d 205, 608 N.Y.S.2d 952 (1994) referencing *Matter of City of New York [Fifth Ave. Coach Lines]*, 18 N.Y.2d 212, 218, 273 N.Y.S.2d 52 (1966). Although the Court of Appeals has stated that "just compensation puts the property owner in the same relative position it would have enjoyed had the taking not occurred," *520 East 81st Street Associates v. State*, 99 N.Y.2d 43, 750 N.Y.S.2d 833 (2002), there can be no assurance that any award of just compensation by a reviewing court would be sufficient to pay the full amount of principal of and interest on the Bonds.

#### Opinion as to State Takings Clause.

Based on our review of relevant judicial authority, including as discussed in this opinion, but subject to the qualifications, limitation and assumptions (including the assumption that any Impairment Action would be "substantial") set forth herein, it is our opinion that a reviewing court of competent jurisdiction applying New York law, in a properly prepared and presented case, would conclude that the State would be required to pay just compensation to the Bondholders if the State undertook an Impairment Action in contravention of the New York State Pledge after the Bonds are issued, but before they are fully paid, that (i) constituted a permanent appropriation of a substantial property interest of the holders of the Bonds in the Restructuring Property or denied all economically beneficial or productive use of the Restructuring Property; (ii) destroyed the Restructuring Property, other than in response to so-called emergency conditions; or (iii) substantially reduced, altered or impaired the value of the Restructuring Property so as to unduly interfere with the reasonable expectations of the holders arising from their investment in the Bonds.

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<sup>2</sup> Because many factors could have an impact on the market price of the Bonds, maintenance of the market price of the Bonds might be considered a unilateral expectation of the Bondholders, and not a reasonable, investment backed expectation. See *U.S. Trust Co.*, 431 U.S. at 18. If so, an Impairment Action affecting only this "unilateral expectation" might not constitute a compensable taking.

**SEVERABILITY OF PROVISIONS OF STATUTE**

The Statute provides that the provisions thereof are intended to be severable. In accordance with Section 14 of the Statute, if any section, subdivision, paragraph or subparagraph of the Statute or the application thereof to any person, circumstance or transaction is held by a court of competent jurisdiction to be unconstitutional or invalid, the unconstitutionality or invalidity shall not affect the constitutionality or validity of any other section, subdivision, paragraph or subparagraph of the Statute or its application or validity to any person, circumstance or transaction, including, without limitation, the irrevocability of a restructuring cost financing order issued pursuant to the Statute, the validity of the issuance of restructuring bonds, the imposition of transition charges, the transfer or assignment of restructuring property or the collection and recovery of revenues from transition charges (as such terms are defined in the Statute). Furthermore, in accordance with Section 12 of the Statute, effective on the date the Bonds are issued, if any provision of the Statute is held to be invalid or is invalidated, superseded, replaced, repealed or expires for any reason, that occurrence shall not affect any action allowed under the Statute that is taken by the Authority, LIPA, the Bond Issuer or any owner of T&D system assets, an assignee, a collection agent, a financing party, a holder of restructuring bonds or a party to an ancillary agreement (as such terms are defined in the Statute) and any such action shall remain in full force and effect.

**VOTER REFERENDA OR INITIATIVE**

Under Article III, Section 1 of the State Constitution, the legislative power of the State is vested in the State senate and assembly. Under the existing State Constitution and under existing statutes and court decisions, there is no provision for a voter initiative or referendum for the purpose of amending or repealing the Statute.

\* \* \* \*

We note that judicial analysis of issues relating to the State Takings Clause and the State Due Process Clause and the retroactive effect to be given to judicial decisions has typically proceeded on a case by case basis and that a court's determination, in most instances, is strongly influenced by the facts and circumstances of the particular case, many of which cannot be known at this time. We further note that there are no reported controlling judicial precedents of which we are aware directly on point. Our analysis is necessarily a reasoned application of judicial decisions involving similar or analogous circumstances. Moreover, the application of equitable principles (including the availability of injunctive relief or the issuance of a stay pending appeal) is subject to the discretion of the court which is asked to apply them. We cannot predict the facts and circumstances which will be present in the future and may be relevant to the exercise of such discretion. Consequently, there can be no assurance that a court will follow our reasoning or reach the conclusions as to any of the matters discussed above which we believe current judicial precedent supports. None of the foregoing opinions is intended to be a guaranty as to what a particular court would actually hold; rather, each such opinion is only an expression as to the decision a court ought to reach if the issue were properly prepared and presented to it and the court followed what we believe to be the applicable legal principles under existing judicial precedent. The recipients of this letter should take these considerations into account in analyzing the risks associated with the Transaction.

The opinions set forth above are given as of the date hereof and we disavow any undertakings or obligations to advise you of any changes in the law (whether constitutional, statutory, regulatory or judicial) or in interpretations thereof which may hereafter occur or any facts or circumstances that may hereafter occur or come to our attention that could affect such opinions.

This opinion is solely for your benefit in connection with the Transaction and may not be relied upon, used or circulated by, quoted, or otherwise referred to by, nor may copies hereof be delivered to, any other person without our prior written approval.

No attorney-client relationship has existed between you and our firm in connection with the foregoing matters, and no such relationship shall exist by virtue of this letter.

Very truly yours,

Schedule I

Standard & Poor's Ratings Group  
55 Water Street  
New York, New York 10041

Moody's Investors Services, Inc.  
7 World Trade Center at  
250 Greenwich Street, 24th Floor  
New York, NY 10007

Fitch, Inc.  
One State Street Plaza  
New York, New York 10004

Goldman, Sachs & Co.  
200 West Street  
New York, NY 10282-2198  
as Representative of the Underwriters  
under the Bond Purchase Agreement  
referred to herein

Morgan Stanley & Co., LLC  
1585 Broadway, 11th Floor  
New York, NY 10036  
as Representative of the Underwriters  
under the Bond Purchase Agreement  
referred to herein

Utility Debt Securitization Authority  
c/o Long Island Power Authority  
333 Earle Ovington Blvd.  
Uniondale, NY 11553

**APPENDIX D**  
**PROPOSED FORM OF OPINION OF TRANSACTION COUNSEL**  
**RELATING TO FEDERAL CONSTITUTIONAL MATTERS**

[LETTERHEAD OF MORGAN, LEWIS & BOCKIUS LLP]

[\_\_\_\_\_], 2013

To Each Person Listed on  
the Attached Schedule I

Re: Utility Debt Securitization Authority Restructuring Bonds;  
Federal Constitutional Issues

Ladies and Gentlemen:

We have acted as special counsel to Long Island Power Authority, a corporate municipal instrumentality, body corporate and politic and a political subdivision of the State of New York (the "Authority"), and its subsidiary, Long Island Lighting Company, a New York corporation doing business under the name LIPA ("LIPA"), in connection with, among other things, the transfer and sale by the Authority of all of its right, title and interest in, to and under certain restructuring property to the Utility Debt Securitization Authority, a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York (the "Bond Issuer") (as so transferred, the "Restructuring Property"), as more fully described below, the issuance by the Bond Issuer of the Bonds referred to and described below and the other related transactions referred to and described below.

The Bonds will be secured by a security interest in the Restructuring Property, together with certain other property of the Bond Issuer. Generally, "Restructuring Property" is a property right created under Part B of Chapter 173 of the State of New York Laws of 2013 (the "Statute"), pursuant to a restructuring cost financing order adopted by the Authority. The Authority adopted a Restructuring Cost Financing Order on October 3, 2013 with respect to the creation of the Restructuring Property in connection with the issuance of the Bonds by the Bond Issuer on [\_\_\_\_\_], 2013 (the "Financing Order") that, among other things, authorized the creation and sale of the Restructuring Property, which includes the irrevocable right to impose, bill, collect and receive certain nonbypassable transition charges (as adjusted from time to time) (the "Charges") from all individuals and legally-recognized entities taking electric delivery service (the "Customers") in the geographical area within which LIPA provided electric transmission and distribution service as of July 29, 2013 (the "Service Area").

The Bond Issuer was created pursuant to section 4 of the Statute on July 29, 2013.

**THE TRANSACTION**

On the date hereof, the Authority has sold the Restructuring Property to the Bond Issuer under the Restructuring Property Purchase and Sale Agreement dated as of [\_\_\_\_\_], 2013 between the Authority and the Bond Issuer and the related Bill of Sale dated [\_\_\_\_\_], 2013 (such Sale Agreement and Bill of Sale, together, the "Sale Agreement") for an amount in cash (the "Proceeds"). Under the Restructuring Property Servicing Agreement dated as of [\_\_\_\_\_], 2013 between the Authority, in its capacity as Servicer, and the Bond Issuer (the "Servicing Agreement"), the Authority has agreed to service the Restructuring Property. Under the Administration Agreement dated as of [\_\_\_\_\_], 2013 between LIPA, as Administrator (the "Administrator"), and the Bond Issuer, the Administrator has agreed to perform certain administrative services on behalf of the Bond Issuer (the "Administration Agreement").

On the date hereof, the Bond Issuer issued its Restructuring Bonds (the "Bonds"), under the Indenture dated as of [\_\_\_\_\_], 2013 (the "Indenture") between the Bond Issuer and [\_\_\_\_\_], as Indenture Trustee (the "Indenture Trustee").

Pursuant to the Bond Purchase Agreement dated [\_\_\_\_\_], 2013 (the “Bond Purchase Agreement”) among [the Authority,] the Bond Issuer and Goldman, Sachs & Co. and Morgan Stanley & Co., LLC, as representatives of the several initial purchasers named therein, such Initial Purchasers have agreed to purchase the Bonds from the Bond Issuer.

As used herein, the term “Transaction Documents” means, collectively, the Sale Agreement, the Servicing Agreement, the Administration Agreement, the Bonds, the Indenture and the Bond Purchase Agreement, and “Transaction” means the transactions contemplated by the Transaction Documents. Capitalized terms used herein that are not otherwise defined shall have the meanings assigned to them in the Indenture.

### **FACTS AND ASSUMPTIONS**

In connection with the opinions set forth below, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of the following:

- a) the Statute;
- b) the Financing Order;
- c) the Transaction Documents;
- d) the Official Statement, dated [\_\_\_\_\_], 2013, relating to the offer and sale of the Bonds; and
- e) such other documents relating to the Transaction as we have deemed necessary or advisable as a basis for such opinions.

We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Authority, LIPA and the Bond Issuer, agreements, certificates of public officials, certificates of officers, trustees or other representatives of the Authority, LIPA, the Bond Issuer and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein. We have made no independent investigation of the facts referred to herein, and with respect to such facts, we have relied, for the purpose of rendering this opinion and except to the extent any such information constitutes a statement of legal conclusion expressed in this opinion or as otherwise stated herein, exclusively on the factual statements contained and matters provided for in the documents referenced above, including the factual representations, warranties and covenants contained therein as made by the respective parties thereto and on certificates of the Authority, LIPA and the Bond Issuer and their respective directors or trustees, as the case may be, officers and other representatives and of public officials.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of these documents, we have assumed: that each of the parties to such documents is duly organized and validly existing under the laws of its jurisdiction of organization and each party to the Transaction Documents is authorized to do business and is in good standing in each other jurisdiction in which it is required to be authorized to do business; that the parties to such documents had the power, corporate or other, to enter into and perform all obligations thereunder; and the due authorization by all requisite action, corporate or other, the due execution and delivery by the parties of the Transaction Documents, and the validity and binding effect thereof upon such parties and the enforceability thereof against such parties.

We express no opinion herein as to the laws of any jurisdiction other than the federal laws of the United States of America.

### **OPINION REQUESTED**

You have requested our opinion as to:

- (1) whether a court would conclude that the State of New York would be required to pay just compensation to the Bondholders if the State of New York undertook a repeal or amendment of the Statute or took any other action or failed to take any action required by the New York Pledge (as defined below) (any such repeal, amendment, action or inaction is herein referred to as an “Impairment Action”) after the Bonds are issued, but before they are fully paid that would (a) appropriate the Restructuring Property or deny productive use of the Restructuring Property; (b)

destroy the Restructuring Property; or (c) substantially reduce, alter or impair the value of the Restructuring Property;

(2) whether the New York Pledge (as defined below) and the Bankruptcy Pledge (as defined below) create a contractual relationship between the State of New York and the Bondholders;

(3) whether the Bondholders could successfully challenge under the Contract Clause of the United States Constitution the constitutionality of (i) an Impairment Action that limits, alters, impairs or reduces the value of the Restructuring Property or the Transition Charges prior to the time that the Bonds are fully paid and discharged or (ii) any action by the State of New York that limits or alters the denial of authority to the Bond Issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code (any such action is herein referred to as a “Bankruptcy Authority Action”); and

(4) whether preliminary injunctive relief would be available under federal law to delay implementation of (i) an Impairment Action that limits, alters, impairs or reduces the value of the Restructuring Property or the Transition Charges pending final adjudication of a claim challenging such Impairment Action under the Contract Clause, or (ii) a Bankruptcy Authority Action, and assuming a favorable final adjudication of such claim, whether relief would be available to prevent permanently the implementation of such Impairment Action or Bankruptcy Authority Action.

#### **PLEDGE AND AGREEMENT OF THE STATE OF NEW YORK**

The Statute provides in Section 9 that the State of New York “pledges to and agrees with” the holders of restructuring bonds, which includes the Bondholders:

that the state will not in any way take or permit any action that limits, alters or impairs the value of restructuring property or, except as required by the adjustment mechanism described in the restructuring cost financing order, reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(The above-quoted pledge is herein referred to as the “New York Pledge.”) Section 9 also permits any issuer of restructuring bonds “to include the [New York] pledge . . . in the restructuring bonds, ancillary agreements and documentation related to the issuance and marketing of the restructuring bonds.” We note that the New York Pledge is set forth on the Bonds and in the Indenture.

The Statute also provides in Section 4(3) that “[t]he restructuring bond issuer shall not be authorized to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code” and that the State of New York “pledges, contracts and agrees with owners of restructuring bonds issued by restructuring bond issuer that the state will not limit or alter the denial of authority to the restructuring bond issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code.” The foregoing pledge is herein referred to as the “Bankruptcy Pledge”.

#### **DISCUSSION OF THE TAKINGS CLAUSE**

The Fifth Amendment of the United States Constitution, among other things, states, “nor shall private property be taken for public use, without just compensation.” This clause is commonly referred to as the Takings Clause of the United States Constitution, or the Federal Takings Clause, and is referred to herein as the “Federal Takings Clause.” The Fourteenth Amendment of the United States Constitution makes the Fifth Amendment, including the Federal Takings Clause, applicable to any state action, Webb’s Fabulous Pharmacies, Inc. v. Beckwith, 449 U.S. 155 (1980), which would include actions of both the New York Legislature and the New York Public Authorities Control Board (“PACB”). The Federal Takings Clause applies to governmental “takings” of both tangible and intangible property. Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1003 (1984). To the extent relevant here, takings cases can generally be divided into two distinct categories: physical takings, where the government



physically occupies, or takes title to, private property, and regulatory takings, where the government regulates the use of private property. Yee v. City of Escondido, 503 U.S. 519, 522-23 (1992). Physical takings cases, even when there has been minimal “permanent physical occupation of real property,” generally require that compensation be paid without a specific inquiry into the interests advanced. Loretto v. Teleprompter Manhattan CATV Corp., 458 U.S. 419, 427, 435, 438 n.16 (1982); see also Lucas v. South Carolina Coastal Council, 505 U.S. 1003, 1015 (1992). On the other hand, regulatory takings cases, in most instances,<sup>1</sup> necessarily entail “complex factual assessments of the purposes and economic effects of government actions” before a court will award compensation. Yee, 503 U.S. at 522-23. See also Penn Central Transp. Co. v. New York City, 438 U.S. 104, 124 (1978) (noting that the United States Supreme Court has been unable to develop any “set formula” for analyzing and evaluating Federal Takings Clause claims, and that the Court’s conclusion will depend largely upon the particular circumstances of a particular case). A claimant in a regulatory takings case will generally recover compensation only if the government has regulated the private property at issue to such a degree that a particular property owner has been deprived of the economic use of that property and “unfairly singled out” to bear a burden that is more properly “borne by the public as a whole.” Id.<sup>2</sup>

Regulatory takings can affect two distinct property types: tangible property, such as real property or equipment, and intangible property, such as trade secrets and, presumably, Restructuring Property. In order to determine whether any governmental action triggers a compensable regulatory taking of intangible property under the Federal Takings Clause, a court must determine, first, whether the claimants have a property interest for purposes of the Federal Takings Clause.<sup>3</sup> If so, the court must then determine whether the government’s action effects a compensable taking of that protected property interest. Ruckelshaus, 467 U.S. at 1000-01.<sup>4</sup>

A court’s response to a Federal Takings Clause challenge will be affected by the nature of any Impairment Action. An Impairment Action with respect to the Bonds could take many forms, including, among others, legislation that (i) repeals the New York Pledge, (ii) invalidates the imposition of the Transition Charges or (iii) changes the regulatory framework for setting utility rates in such a way that the change adversely impacts the collection of the Transition Charges. A discussion of applicable principles that courts have applied in analyzing the effect of an alleged taking follows.

A. Is there a property interest for purposes of the Federal Takings Clause?

The United States Supreme Court has held that property other than real property and tangible personal property is entitled to the protections afforded by the Federal Takings Clause. Ruckelshaus, 467 U.S. at 1003. An independent source, such as state law or existing rules, however, and not the United States Constitution, must create the protected property right. Ruckelshaus, 467 U.S. at 1001; Webb’s Fabulous Pharmacies, 449 U.S. at 161; Board of Regents v. Roth, 408 U.S. 564, 577 (1972). In Ruckelshaus, the Court determined that trade secrets that are cognizable under state law constitute property rights for purposes of the Federal Takings Clause, noting that:

the Court has found other kinds of intangible interests to be property for purposes of the Fifth Amendment’s Taking Clause. See, e.g., Armstrong v. United States, 364 U.S. 40, 44, 46 (1960) (materialman’s lien provided for under Maine law protected by Taking Clause); Louisville Joint Stock Land Bank v. Radford, 295 U.S. 555, 596-602 (1935) (real estate lien protected); Lynch v. United States, 292 U.S. 571, 579 (1934) (valid contracts are property within meaning of the Taking Clause).

467 U.S. at 1003. See also, Duquesne Light Co. v. Barasch, 488 U.S. 299, 307 (1989) (recognizing that a utility’s right to a fair return on investment is a property right for purposes of the Federal Takings Clause); Brown v. Legal

<sup>1</sup> The United States Supreme Court has recognized, however, that in regulatory takings cases where a governmental regulation permanently deprives a property owner of all “economically beneficial or productive use of land,” a per se compensable taking exists which warrants compensation without any complex analysis. Lucas, 505 U.S. at 1015. The Court, however, has declined to apply this hard and fast rule to regulatory takings which may temporarily deprive a property owner of all economically beneficial or productive use of land. Tahoe-Sierra Preservation Council, Inc. v. Tahoe Regional Planning Agency, 535 U.S. 302 (2002).

<sup>2</sup> See also, Armstrong v. United States, 364 U.S. 40, 49 (1960) (finding that the purpose of the Federal Takings Clause is to restrain the government, by, among other things, preventing the government from “forcing some people alone to bear public burdens which, in all fairness and justice, should be borne by the public as a whole”).

<sup>3</sup> The existence of a protected property interest would generally be assumed and, therefore, would not be a significant issue, for courts assessing Federal Takings Clause claims involving real property and tangible personal property.

<sup>4</sup> A court would not reach these issues unless the purported taking is for public use because the State does not have the power to take a private citizen’s property except for public use. Hawaii Housing Authority v. Midkiff, 467 U.S. 229, 231-32, 240 (1984).

Foundation of Washington, 538 U.S. 216 (2003) (finding that a state law requiring that interest on lawyers’ trust fund accounts be transferred to a separate account to pay for legal services for the needy was more akin to a physical taking of property and thus warranted the application of per se rules as opposed to the ad hoc factual analysis of regulatory takings; the Supreme Court had previously held in Phillips v. Washington Legal Foundation, 524 U.S. 156 (1998), that such interest was the private property of the owner of the principal). In holding that an Environmental Protection Agency regulation requiring companies to divulge trade secrets effected a compensable taking with respect to certain trade secrets, the Ruckelshaus Court had to determine if the trade secrets constituted a property interest for purposes of the Federal Takings Clause. In this latter connection, the Court noted that: “[t]rade secrets have many of the characteristics of more tangible forms of property. A trade secret is assignable. . . . A trade secret can form the res of a trust, . . . and it passes to a trustee in bankruptcy.” Ruckelshaus, 467 U.S. at 1002 (citations omitted). A court should undertake a similar analysis of, and reach a similar conclusion regarding, the Restructuring Property in determining whether it constitutes “property” for purposes of the Federal Takings Clause.<sup>5</sup>

The decision in U.S. Trust Co. v. New Jersey, 431 U.S. 1 (1977), involved a legislative covenant, similar in nature to the New York Pledge, made to Port Authority bondholders by the New Jersey Legislature, pledging that the revenues supporting the subject Port Authority bonds would not be diverted for unauthorized purposes. This covenant was later repealed by the New Jersey Legislature, which repeal the Supreme Court found to impair the contract rights of the bondholders. U.S. Trust, 431 U.S. at 19. The Supreme Court then indicated in dicta that “[c]ontract rights are a form of property” that, if taken, would require the payment of just compensation. Id. at n.16. Thus, the Bondholders would have a strong argument based on Ruckelshaus, U.S. Trust and the Statute that the Restructuring Property is “property” warranting the protections afforded by the Federal Takings Clause.

The cases discussed above provide strong support for the position that the rights of the Bondholders in the Restructuring Property are property for purposes of the Federal Takings Clause. As discussed above, the nature of any Impairment Action would, however, certainly influence a court’s analysis of whether a compensable taking exists. The factors a court might examine to determine whether such State action would rise to the level of a “taking” are considered below.

**B. If there is a property interest, does the Impairment Action effect a taking of that property interest?**

Once a court determines that the Bondholders’ rights in the Restructuring Property constitute “property” for purposes of the Federal Takings Clause, it would then examine whether the alleged Impairment Action constituted a regulatory taking mandating the payment of just compensation. In Lingle v. Chevron USA, 544 U.S. 528, 538-39 (2005), the Supreme Court identified two categories where regulatory action that does not entail a physical taking of property nonetheless constitutes per se takings – regulations that involve a permanent physical invasion of property and regulations that deprive the owner of all economically beneficial or productive use of the property – and a third category of other regulatory takings.

In the cases that fall into the third category that have asserted a regulatory taking of real property or tangible personal property, the courts have generally made an ad hoc factual determination of the takings allegations based on an examination of the following factors:

1. the character of the government action;
2. the economic impact of the regulation; and
3. the extent to which the regulation interfered with distinct investment-backed expectations.

Penn Central, 438 U.S. at 124.

While the Penn Central case involved a regulatory taking of tangible property,<sup>6</sup> the United States Supreme Court has also applied these principles when analyzing Federal Takings Clause claims related to intangible property. For instance, in Connolly v. Pension Benefit Guar. Corp., 475 U.S. 211 (1986), the Court examined a statute that imposed liability on an employer who withdrew from a multi-employer pension plan to pay to the pension plan the employer’s proportionate share of such pension plan’s unfunded vested benefits. The Court relied on the factors set forth in Penn Central to analyze the takings claim. Connolly, 475 U.S. at 224-25. Similarly, in Ruckelshaus, the

<sup>5</sup> Indeed, Section 7 of the Statute characterizes Restructuring Property as an existing, present property right, which, while not dispositive, supports the conclusion that the Restructuring Property is property for purposes of the Federal Takings Clause.

<sup>6</sup> In Penn Central, the court found that the New York Landmarks Law did not effect a taking of a private property owner’s real property where not all of the owner’s property was affected by restrictions on use and the State was acting pursuant to its police power.

Court applied the Penn Central factors to an alleged regulatory taking of “intangible” trade secrets. Ruckelshaus, 467 U.S. at 1005. More recently, in Eastern Enterprises v. Apfel, 524 U.S. 498 (1998), the Court applied the Penn Central analysis in its Federal Takings Clause review of a Federal statute that charged coal companies that had provided voluntary pension plans for miners with the costs of providing benefits under a new plan.

The first factor of the Penn Central analysis – the character of the government action – entails a consideration of whether the action can be characterized as a physical invasion by the government, as opposed, for example, to the implementation of a public program adjusting the benefits and burdens of economic life to promote the common good. Penn Central, 438 U.S. at 124. This, in turn, leads some courts to an assessment of the extent to which the government action furthered an important public policy. Id. at 127.<sup>7</sup> The second Penn Central factor assesses whether the economic impact of the State action rises to the level of serious economic harm. Id. at 124.<sup>8</sup> The final Penn Central factor examines whether the State action interferes with reasonable investment-backed expectations. Id. A reasonable investment-backed expectation “must be more than a unilateral expectation or an abstract need.” Webb’s Fabulous Pharmacies, 449 U.S. at 161.

In Federal Takings Clause cases, the United State Supreme Court has analyzed one or more of these factors to varying degrees and in varying ways. For example, in Connolly, where the Court ultimately held that there was no taking for purposes of the Fifth Amendment, the Court found that the interference with property rights arose “from a public program that . . . promotes the common good,” not from a physical invasion or permanent appropriation of the assets, and that the legislation in dispute contained a “significant” number of provisions that moderated and mitigated the economic impact of the statute. Connolly, 475 U.S. at 225-26. Moreover, the Court found no interference with reasonable investment-backed expectations. Id. at 226-27.

Thus, to determine whether a compensable taking had occurred, the court would determine whether to apply principles developed in the real property context to an analysis of the Impairment Action. Those principles would require a determination of whether the Impairment Action denied the Bondholders all economically beneficial or productive use of the Restructuring Property, under circumstances such as a legislative ban on the use of the Restructuring Property for the timely payments of principal and interest on the Bonds. If all economically beneficial or productive use of the Restructuring Property were not denied, the court would undertake an ad hoc factual inquiry by considering the factors enumerated in Penn Central in an analysis of the Impairment Action, in which event the court would assess:

1. the character of the government action;
2. the economic impact of the regulation,<sup>9</sup> including whether the State’s action would prevent timely payment of the Bonds; and
3. the extent to which the regulation interfered with reasonable investment-backed expectations.

With respect to the rights of the Bondholders in the Restructuring Property, while the character of any future Impairment Action cannot be known at this time, any such Impairment Action would likely not constitute a

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<sup>7</sup> The simple determination that a government action advances an important public policy is not dispositive, however. Even though all private property is held subject to the sovereign power of the state, including its police power, “if a regulation goes too far it will be recognized as a taking.” Pennsylvania Coal Co. v. Mahon, 260 U.S. 393, 415 (1922).

<sup>8</sup> There are certain instances, however, in which the economic impact of the government action is so severe that the claimant is deprived of all economically beneficial or productive use of property. In such instances, the Court has generally held that compensation is warranted. See discussion of Lucas v. South Carolina Coastal Council in note 1, above. Even in Lucas, however, the Court left open the possibility that even a total elimination of a property’s economically productive use was permissible and would not warrant compensation if the regulation or law in question would “duplicate the result that could have been achieved in the courts by adjacent landowners (or other uniquely affected persons) under the State’s law of private nuisance, or by the State under its complementary power to abate nuisances that affect the public generally, or otherwise.” 505 U.S. at 1029.

<sup>9</sup> Even where the economic impact is severe, compensation may not be required if the action is taken in response to so-called emergency conditions. See, e.g., United States v. Caltex (Philippines), Inc., 344 U.S. 149, 154 (1952) (relying, in part, on the common law, which had “long recognized that in time of imminent peril - such as when fire threatened a whole community - the sovereign could, with immunity, destroy the property of a few that the property of many and the lives of many more could be saved,” the court found no taking when the U.S. military destroyed private oil facilities in the Philippines to prevent the Japanese from taking control of the facilities during World War II). See, also, Dames & More v. Regan, 453 U.S. 654 (1981) (no compensable taking resulting from executive order nullifying attachments on Iranian assets and permitting those assets to be transferred out of the country); Miller v. Schoene, 276 U.S. 272 (1928) (no compensable taking where trees were destroyed to prevent disease from spreading to other trees); United States v. Pacific Railroad, 120 U.S. 227 (1887) (no compensation required due to exigencies of war when the military destroyed private bridges to prevent the confederates from using them); American Mfrs. Mut. Ins. Co. v. United States, 453 F.2d 1380, 1381 (Ct. Cl. 1972) (compensation not required when private vessel was “destroyed as part of the fortunes of war and by actual and necessary military operations in attacking and defending against enemy forces”).

physical invasion and would presumably ostensibly be in furtherance of an important public policy. Although the effect of any future Impairment Action also cannot be known at this time, any such Impairment Action that prevented the payment of the Bonds would likely be found to have a serious economic impact on the Bondholders. In any event, it seems that an Impairment Action that prevented the timely payment of principal and interest on the Bonds would interfere with the Bondholders' investment-backed expectations because timely payment of the Bonds is the primary expectation of the Bondholders. Additionally, the New York Pledge itself gives rise to these reasonable investment backed expectations on the part of the Bondholders. The United States Supreme Court has held that a government "guarantee" of confidentiality could form the basis for such an expectation. Ruckelshaus, 467 U.S. at 1011. The Bondholders could argue that they would not have invested in the Bonds in the absence of the government "guarantee" contained in the New York Pledge and, thus, in accordance with Ruckelshaus, that the New York Pledge created reasonable investment backed expectations. The State of New York has gone to great lengths to give credence to the New York Pledge, including authorizing its inclusion on the Bonds. Therefore, we believe that it is reasonable for the Bondholders who have invested their funds in the Bonds to expect that the Legislature will honor the New York Pledge.<sup>10</sup>

### **TAKINGS CLAUSE OPINION**

Based on our review of relevant judicial authority, as discussed in this opinion, but subject to the qualifications, limitation and assumptions (including the assumption that any Impairment Action would be "substantial") set forth herein, it is our opinion that a reviewing court of competent jurisdiction, in a properly prepared and presented case, would conclude that the State of New York would be required to pay just compensation to the Bondholders if the State of New York undertook an Impairment Action in contravention of the New York Pledge after the Bonds are issued, but before they are fully paid, that (i) constituted a permanent appropriation of a substantial property interest of the Bondholders in the Restructuring Property or denied all economically beneficial or productive use of the Restructuring Property; (ii) destroyed the Restructuring Property, other than in response to so-called emergency conditions; or (iii) substantially reduced, altered or impaired the value of the Restructuring Property so as to unduly interfere with the reasonable expectations of the Bondholders arising from their investment in the Bonds.

There can be no assurance, however, that any award of compensation would be sufficient to pay the full amount of principal of and interest on the Bonds.

\* \* \* \*

### **DISCUSSION OF THE CONTRACT CLAUSE**

The Contract Clause of the United States Constitution, Article I, Section 10, provides that "no State shall . . . pass any . . . Law impairing the Obligation of Contracts." The United States Contract Clause protects contractual obligations from impairment by enactment of state law. Allied Structural Steel Co. v. Spannaus, 438 U.S. 234 (1978); U.S. Trust Co. v. New Jersey, 431 U.S. 1 (1977). The Contract Clause is not, however, a complete bar to legislative enactments that have the effect or consequence of altering contractual obligations. "Minimal alteration of contractual obligations may end the inquiry at its first stage. Severe impairment, on the other hand, will push the inquiry to a careful examination of the nature and purpose of the state [action]." Allied Structural Steel, 438 U.S. at 245 (footnotes omitted). If the state regulation constitutes a substantial impairment, to survive constitutional scrutiny it must be justified by a significant and legitimate public purpose. Energy Reserve Group, Inc. v. Kansas Power & Light Co., 459 U.S. 400, 411 (1983) (citing U.S. Trust, 431 U.S. at 22). Once a legitimate public purpose has been identified, the next inquiry is whether the measure is based "upon reasonable conditions and [is] of a character appropriate to the public purpose justifying [the legislation's] adoption." Id. at 412. In such inquiry, courts defer to the legislature's judgment as to the necessity and reasonableness of the measure. U.S. Trust, 431 U.S. at 23. Moreover, "[t]he State has the 'sovereign right . . . to protect the . . . general welfare of the people'" and the courts must respect the "wide discretion on the part of the legislature in determining what is and what is not necessary." El Paso v. Simmons, 379 U. S. 497, 508 09 (1965) (citation omitted).

In order for the Contract Clause to apply, the existence of a contractual relationship must be established. The courts have recognized the general presumption that, absent some clear indication that a legislature intends to bind itself contractually, "a law is not intended to create private contractual or vested rights but merely declares a

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<sup>10</sup> Because many factors could have an impact on the market price of the Bonds, maintenance of the market price of the Bonds might be considered a unilateral expectation of the Bondholders, and not a reasonable, investment backed expectation. See U.S. Trust Co., 431 U.S. at 18. If so, an Impairment Action affecting only this "unilateral expectation" might not constitute a compensable taking.

policy to be pursued until the legislature shall ordain otherwise.” National R.R. Passenger Corp. v. Atchison, Topeka & Santa Fe Ry. Co., 470 U.S. 451, 465-66 (1985) (quoting Dodge v. Board of Educ., 302 U.S. 74, 79 (1937)). This presumption is based on the fact that the legislature’s principal function is not to make contracts, but to make laws that establish the policy of the State. Thus, a person asserting the creation of a contract with the State must overcome this presumption.

Although not dispositive, the United States Supreme Court in U.S. Trust has concluded that a legislative pledge in a New Jersey statute that was similar to the New York Pledge and the Bankruptcy Pledge constituted a contractual obligation of the state:<sup>11</sup> “The intent to make a contract is clear from the statutory language. ‘The 2 States covenant and agree with . . . the holders of any affected bonds. . . .’ 1962 N.J. Laws, c. 8, s. 6.” U.S. Trust, 431 U.S. at 18. The Court went on to state in that case that “[i]n return for their promise, the States received the benefit they bargained for: public marketability of Port Authority bonds to finance construction of the World Trade Center and acquisition of the Hudson & Manhattan Railroad. We therefore have no doubt that the 1962 covenant has been properly characterized as a contractual obligation of the two States.” Id.<sup>12</sup>

The “reserved powers” doctrine limits the ability of the State of New York to bind itself contractually in a manner which “surrenders an essential attribute of its sovereignty.” U.S. Trust, 431 U.S. at 23. Under this doctrine, if a contract limits a state’s “reserved powers” – powers that cannot be contracted away – such contract is essentially unenforceable. Id. See generally United States v. Winstar Corp., 518 U.S. 839, 888-90 (1996). Although the scope of these “reserved powers” has not been precisely defined by the courts, case law has established that a state cannot contract away its police powers, Stone v. Mississippi, 101 U.S. 814, 817-18 (1880), or its power of eminent domain, West River Bridge Co. v. Dix., 47 U.S. 507, 532-33 (1848). In contrast, the United States Supreme Court has stated that a state’s “power to enter into effective financial contracts cannot be questioned.” U.S. Trust, 431 U.S. at 24.

Under existing case law, neither the New York Pledge nor the Bankruptcy Pledge, in our view, limit any “reserved powers” of the State. Neither the New York Pledge nor the Bankruptcy Pledge purports to contract away, or constitute a waiver of, the State’s power of eminent domain or otherwise restrict the State’s ability to legislate for the public welfare or to exercise its police powers. Both the New York Pledge and the Bankruptcy Pledge constitute undertakings made by the State not to impair the financial security for the Bonds and was made to gain the capital markets’ acceptance of such instruments, which are expressly authorized and are being issued in connection with New York legislation expected to result in cost savings to LIPA’s customers. The New York Pledge, which the Statute explicitly authorizes to be included in the documentation with respect to the Bonds, as well as the Bankruptcy Pledge, are inducements offered by the State of New York to investors to purchase the Bonds. As such, we believe that the New York Pledge and the Bankruptcy Pledge are akin to the type of “financial contract” involved in U.S. Trust, which was deemed by the United States Supreme Court to be a promise that revenues and reserves securing the bonds at issue there would not be depleted beyond a certain level. Id. at 25. Therefore, upon issuance of the Bonds, it is our opinion that each of the New York Pledge and the Bankruptcy Pledge will give rise to a contractual obligation between the State of New York and the Bondholders for purposes of the Contract Clause.

We also believe that the prohibitions applicable to the State of New York under the Contract Clause would apply to actions by the State of New York acting through the PACB. The New York Legislature has delegated certain of its regulatory powers over the Authority and LIPA to the PACB; however, we do not believe that the State, acting indirectly through an agency such as the PACB, could take any action that would substantially limit, alter, impair or reduce the value or amount of the Restructuring Property or the rights of the Bondholders, or that would limit or alter the denial of authority to the Bond Issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code, that the State of New York could not take directly without violating its pledge.

#### Injunctive Relief

In order for a Federal court to issue a preliminary injunction, the court must conclude that a petitioner has clearly demonstrated each of the following: (1) that he or she is likely to succeed on the merits; (2) that he or she will suffer irreparable harm in the absence of preliminary injunctive relief; (3) that the balance of equities tips in his or her favor; and (4) that an injunction is in the public interest. Winter v. Natural Resources Defense Council, Inc., 555 U.S. 7, 20 (2008). See also Real Truth About Obama, Inc. v. Federal Election Com’n, 575 F.3d 342, 346 (4th

<sup>11</sup> In U.S. Trust, the Supreme Court held that the legislative alteration of the rights and remedies of Port Authority bondholders violated the United States Contract Clause because the legislation was neither necessary nor reasonable. 431 U.S. at 32.

<sup>12</sup> The Court did note, however, that “[t]he States remain free to exercise their power of eminent domain to abrogate such contractual rights, upon payment of just compensation.” U.S. Trust, 431 U.S. at 29 n.27.

Cir. 2009). While each of these requirements must be met for a preliminary injunction to be issued, in Winter, the Supreme Court emphasized the fourth requirement, stating: “In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction.” Id. at 376-77 (internal quotation marks and citation omitted).

In a challenge to an Impairment Action or a Bankruptcy Authority Action in Federal court, the court, in determining whether to grant a permanent injunction, would apply substantially similar factors as it would for a preliminary injunction. National City Bank of Indiana, et al., v. Charles W. Turnbaugh, 367 F. Supp. 2d 805 (2005). However, unlike in connection with a preliminary injunction, where a plaintiff needs only to show a likelihood of a success on the merits, for a court to grant a permanent injunction, a plaintiff must succeed on the merits. Amoco Production Co. v. Village of Gambell, AK, 480 U.S. 531 (1987).

### **CONTRACT CLAUSE OPINION**

While there is no case law which considers the application of the United States Contract Clause specifically to the Statute, we have considered existing case law concerning the application of the Contract Clause of the United States Constitution to legislation which reduces or eliminates taxes, public charges or other sources of revenues which support bonds issued by public instrumentalities or private issuers, or which otherwise reduces or eliminates the security for bonds. Based upon our review of relevant judicial authority, as discussed in this opinion, but subject to the qualifications, limitations and assumptions (including the assumption that any Impairment Action would be “substantial”) set forth herein, it is our opinion that a reviewing court of competent jurisdiction, in a properly prepared and presented case:

(i) would conclude that each of the New York Pledge and the Bankruptcy Pledge constitutes a contractual relationship between the Bondholders and the State of New York;

(ii) would conclude that, absent a demonstration that the Impairment Action or the Bankruptcy Action was necessary to further a significant and legitimate public purpose, the Bondholders (or the Indenture Trustee on their behalf) could successfully challenge under the Federal Contract Clause the constitutionality of (a) any Impairment Action determined by such court to substantially limit, alter, impair or reduce the value of the Restructuring Property or the Transition Charges before the Bonds are fully paid and discharged and (b) any Bankruptcy Authority Action; and

(iii) should conclude that permanent injunctive relief is available under Federal law to prevent implementation of (a) any Impairment Action determined by such court to limit, alter, impair or reduce the value of the Restructuring Property or the Transition Charges or (b) any Bankruptcy Authority Action, in each case in violation of the Federal Contract Clause; and although sound and substantial arguments support the granting of preliminary injunctive relief, the decision to do so will be in the discretion of the court requested to take such action, which will be exercised on the basis of the considerations discussed herein.

We note that judicial analysis of issues relating to the Federal Takings Clause and the retroactive effect to be given to judicial decisions has typically proceeded on a case by case basis and that a court’s determination, in most instances, is strongly influenced by the facts and circumstances of the particular case, many of which cannot be known at this time. We further note that there are no reported controlling judicial precedents of which we are aware directly on point. Our analysis is necessarily a reasoned application of judicial decisions involving similar or analogous circumstances. Moreover, the application of equitable principles (including the availability of injunctive relief or the issuance of a stay pending appeal) is subject to the discretion of the court which is asked to apply them. We cannot predict the facts and circumstances which will be present in the future and may be relevant to the exercise of such discretion. Consequently, there can be no assurance that a court will follow our reasoning or reach the conclusions which we believe current judicial precedent supports. None of the foregoing opinions is intended to be a guaranty as to what a particular court would actually hold; rather, each such opinion is only an expression as to the decision a court ought to reach if the issue were properly prepared and presented to it and the court followed what we believe to be the applicable legal principles under existing judicial precedent. The recipients of this letter should take these considerations into account in analyzing the risks associated with the Transaction.

The opinions set forth above are given as of the date hereof and we disavow any undertakings or obligations to advise you of any changes in the law (whether constitutional, statutory, regulatory or judicial) which may hereafter occur or any facts or circumstances that may hereafter occur or come to our attention that could affect such opinions.

This opinion is solely for your benefit in connection with the Transaction and may not be relied upon, used or circulated by, quoted, or otherwise referred to by, nor may copies hereof be delivered to, any other person without our prior written approval.

Very truly yours,

Schedule I

Standard & Poor's Ratings Group  
55 Water Street  
New York, New York 10041

Moody's Investors Services, Inc.  
7 World Trade Center at  
250 Greenwich Street, 24th Floor  
New York, NY 10007

Fitch, Inc.  
One State Street Plaza  
New York, New York 10004

Goldman, Sachs & Co.  
200 West Street  
New York, NY 10282-2198

Morgan Stanley & Co., LLC  
1585 Broadway, 11th Floor  
New York, NY 10036

Utility Debt Securitization Authority  
c/o Long Island Power Authority  
333 Earle Ovington Blvd.  
Uniondale, NY 11553



**APPENDIX E**  
**PROPOSED FORM OF OPINION OF TRANSACTION COUNSEL**  
**RELATING TO REGULATORY MATTERS**

**[LETTERHEAD OF MORGAN, LEWIS & BOCKIUS LLP]**

December [\_\_], 2013

To Each Person Listed on  
the Attached Schedule I

Re: Opinion Regarding Regulatory Matters

Ladies and Gentlemen:

We have acted as special counsel to Long Island Power Authority, a corporate municipal instrumentality, body corporate and politic and a political subdivision of the State of New York (the "Authority") and its subsidiary, Long Island Lighting Company, a New York corporation doing business under the name LIPA ("LIPA"), in connection with, among other things, the transfer and sale by the Authority of all of its right, title and interest in, to and under certain restructuring property to the Utility Debt Securitization Authority, a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York (the "Bond Issuer") (as so transferred, the "Restructuring Property"), as more fully described below, the issuance by the Bond Issuer of the Bonds referred to and described below and the other related transactions referred to and described below.

The Bonds will be secured by a security interest in the Restructuring Property, together with certain other property of the Bond Issuer. Generally, "Restructuring Property" is a property right created under Part B of Chapter 173 of the State of New York Laws of 2013 (the "Statute"), pursuant to a restructuring cost financing order adopted by the Authority. The Authority adopted a Restructuring Cost Financing Order on October 3, 2013 with respect to the creation of Restructuring Property in connection with the issuance of the Bonds by the Bond Issuer on December [\_\_], 2013 (the "Financing Order") that, among other things, authorized the creation and sale of the Restructuring Property, which includes the irrevocable right to impose, bill, collect and receive certain nonbypassable transition charges (as adjusted from time to time) (the "Charges") from all individuals and legally-recognized entities taking electric delivery service (the "Customers") in the geographical area within which LIPA provided electric transmission and distribution service as of July 29, 2013 (the "Service Area").

The Bond Issuer was created pursuant to section 4 of the Statute on July 29, 2013.

**THE TRANSACTION**

On the date hereof, the Authority has sold the Restructuring Property to the Bond Issuer under the Restructuring Property Purchase and Sale Agreement dated as of December [\_\_], 2013 between the Authority and the Bond Issuer (the "Sale Agreement") for an amount in cash (the "Net Proceeds"). Under the Restructuring Property Servicing Agreement dated as of [\_\_\_\_], 2013 between LIPA, in its capacity as Servicer, and the Bond Issuer (the "Servicing Agreement"), LIPA has agreed to service the Restructuring Property. Under the Administration Agreement dated as of December [\_\_], 2013 between LIPA, as Administrator (the "Administrator"), and the Bond Issuer, LIPA has agreed to perform certain administrative services on behalf of the Bond Issuer (the "Administration Agreement").

On the date hereof, the Bond Issuer issued its Restructuring Bonds (the "Bonds"), under the Indenture dated as of December [\_\_], 2013 (the "Indenture") between the Bond Issuer and The Bank of New York Mellon, as Bond Trustee (the "Bond Trustee").

Pursuant to the Bond Purchase Agreement dated December [\_\_], 2013 (the "Bond Purchase Agreement") among the Bond Issuer and Goldman, Sachs & Co. and Morgan Stanley & Co., LLC, as representatives of the several initial purchasers named therein (the "Initial Purchasers"), such Initial Purchasers have agreed severally to purchase the Bonds from the Bond Issuer.

As used herein, the term “Transaction Documents” means, collectively, the Sale Agreement, the Servicing Agreement, the Administration Agreement, the Bonds, the Indenture and the Bond Purchase Agreement, and “Transaction” means the transactions contemplated by the Transaction Documents. Capitalized terms used herein that are not otherwise defined shall have the meanings assigned to them in the Indenture.

### **FACTS AND ASSUMPTIONS**

In connection with rendering the opinions set forth below, we have examined and, as to various factual matters, relied upon originals or copies, certified or otherwise identified to our satisfaction, of the following:

- i. the by-laws of the Bond Issuer;
- ii. the Transaction Documents;
- iii. the Official Statement;
- iv. a certified copy of certain resolutions of the Board of Trustees of the Authority, dated October 3, 2013;
- v. the Issuance Advice Letter dated December [\_\_\_], 2013, filed with the Authority by the Servicer and confirmed and approved by an Authority Designee.
- vi. the Statute; and
- vii. the Financing Order.

We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Bond Issuer, LIPA and the Authority, agreements, certificates of public officials, certificates of officers or other representatives of the Bond Issuer, LIPA and the Authority and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein. We have made no independent investigation of the facts referred to herein, and with respect to such facts, we have relied, for the purpose of rendering this opinion and, except to the extent such statement constitutes a statement of a legal conclusion expressed in this opinion or as otherwise stated herein, exclusively on the factual statements contained and matters provided for in all of the closing documents delivered in connection with the closing of the Transaction, the documents referenced above, including the factual representations, warranties and covenants contained therein as made by the respective parties thereto. In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

As used herein, the phrase “to our knowledge” with respect to the existence or absence of facts is intended to signify that, while we have made no specific inquiry or other independent examination to determine the existence or absence of such facts, the attorneys in this firm who were actively involved in the Transaction have obtained no actual knowledge to the contrary regarding such facts.

Certain members of this firm are admitted to the Bar of the State. Our opinions with respect to the Statute herein are limited to the Statute, as defined above, as in effect on the date hereof. We express no opinion herein as to the laws of any jurisdiction other than the laws of the State.

For purposes of the opinion expressed in the first sentence of Paragraph No. 2, we have relied solely on our review of the Statute, as set forth in the 236th Annual Legislative Session, Chapter 173, Assembly Bill 8073, 2013 N.Y. ALS 173 (LexisNexis, December [\_\_\_], 2013), and the legislative history of the Statute available on the website of the New York State Assembly (available at [http://assembly.state.ny.us/leg/?default\\_fld=&bn=A08073&term=2013&Actions=Y](http://assembly.state.ny.us/leg/?default_fld=&bn=A08073&term=2013&Actions=Y)).

For purposes of the opinion expressed in Paragraph No. 10 below, we have reviewed and relied upon the opinion[s] of Hawkins Delafield & Wood, LLP of even date herewith that are responsive to Section 8( ) of the Bond Purchase Agreement.

### **OPINIONS**

Based on the foregoing facts and assumptions being correct and continuing to be correct at all relevant times, and subject to the qualifications, limitations and assumptions set forth herein and while courts may differ and no cases interpreting the transfer of the Restructuring Property under the Statute have been decided, it is

our opinion that a reviewing court, in a properly prepared and presented case, relying on the facts on which we have relied and giving them the proper weight and authority, properly applying the Statute to the Transaction would conclude that:

1. The Financing Order was duly authorized and issued by the Authority in accordance with all applicable State laws, rules and regulations (including the Statute); the Financing Order and the process by which it was issued comply with all applicable State laws, rules and regulations, including the Statute; and the Financing Order is in full force and effect and is final and nonappealable.

2. The Statute has been duly enacted by the Legislature of the State in accordance with all applicable State laws, has not been amended, repealed or rescinded and is in full force and effect. To our knowledge, the validity of the Statute is not the subject of any pending litigation or appeal.

3. The Financing Order, among other things, (i) authorizes and approves the issuance of the Bonds, (ii) authorizes the creation and sale of the Restructuring Property to the Bond Issuer, (iii) authorizes the owner of the Restructuring Property to impose, bill and collect the Charges, (iv) authorizes the Bond Issuer to pledge the Restructuring Property as security for the repayment of the Bonds, (v) authorizes LIPA to serve as initial Servicer for the Issuer, and (vi) authorizes periodic adjustments of the Charges, and the paragraphs of the Financing Order authorizing the foregoing are irrevocable.

4. The Restructuring Property may be transferred, sold, conveyed or assigned to the Bond Issuer, and includes the rights and interests under the Financing Order described in Ordering Paragraph 11 of the Financing Order.

5. Section 9 of the Statute includes an explicit pledge binding on the State (the “State Pledge”) that the State will not take or permit any action that impairs the value of the Restructuring Property, or, except for periodic adjustments required to be made pursuant to the adjustment mechanism specified in the Financing Order, reduces, alters, or impairs the Charges until the principal, interest and premium, if any, and any other Ongoing Financing Costs have been paid in full. The State Pledge is applicable to the Transaction.

6. The Bonds are “restructuring bonds” within the meaning of the Act and the Bonds are entitled to the protections provided under the Statute and the Financing Order, and the Bond Trustee on behalf of the Holders of the Bonds shall be, to the extent permitted by State of New York and federal law and the Bond Indenture, entitled to enforce the protections of the Statute and the Financing Order.

7. The Restructuring Property sold to the Bond Issuer pursuant to the Sale Agreement, including the irrevocable right to impose, collect and receive Charges and the revenues and collections from the Charges, is “restructuring property” within the meaning of the Act.

8. The Bond Issuer has acquired the Authority’s rights with respect to the Restructuring Property.

9. The transaction involving the sale of the Restructuring Property constitutes a true sale thereof other than for federal, state and local income and franchise tax purposes.

10. The Transaction, as contemplated by the Transaction Documents, conforms to the Financing Order in all material respects.

11. As provided in sections 7.1(f) and 8.2(b) of the Statute, any successor owner of the T&D System Assets and any successor Servicer shall be bound by the requirements of the Statute and shall perform and satisfy all obligations of a Servicer in the same manner and to the same extent under the Financing Order as did LIPA, as the initial Servicer, including, without limitation, the obligation to impose, bill and collect the Charges and to pay such collections to the person entitled to receive the Charge revenues. As provided in sections 8 and 15 of the Statute, the Financing Order is also binding on any other entity responsible for billing and collecting Charges on behalf of the Bond Issuer and any successor regulator to the Authority.

12. Pursuant to Ordering Paragraph 12 of the Financing Order and Annex 1 to the Servicing Agreement, the Servicer is authorized to file True-Up Adjustments to the Charge to the extent necessary to ensure the timely recovery of revenues sufficient to provide for the payment of all principal and interest on the Bonds and all other approved Financing Costs.

13. The statements under the heading “THE SECURITIZATION LAW” in the Preliminary Official Statement and the Official Statement, insofar as such statements purport to describe the scope and application of the Act to the transactions described therein, are accurate in all material respects.

#### **QUALIFICATIONS**

Our opinions are limited to the specific issues addressed and are limited in all respects to laws and facts existing on the date of this letter. The opinions expressed above do not constitute a guarantee of the outcome of any particular litigation, and there can be no assurance that action will not be taken in federal or state court challenging the constitutionality of the provisions of the Statute relating to the Bonds. Moreover, there can be no assurance that there will be no action by the State which might constitute a violation of the State Pledge. Furthermore, given the lack of judicial precedent directly on point, and the novelty of the Transaction, the outcome of any litigation cannot be predicted with any degree of certainty. In the event of any claim or state action which adversely impacts the rights of the Bondholders, costly and time-consuming litigation might ensue, adversely affecting, at least temporarily, the price and liquidity of the Bonds.

The foregoing opinion is expressly subject to there being no material change in the law, and there being no additional facts which would materially affect the assumptions set forth herein. The opinions set forth above are given as of the date hereof and we disavow any undertakings or obligations to advise you of any changes in the law (whether constitutional, statutory, regulatory or judicial) which may hereafter occur or any facts or circumstances that may hereafter occur or come to our attention that could affect such opinions.

This opinion is solely for your benefit in connection with the Transaction and may not be relied upon, used or circulated by, quoted, or otherwise referred to by, nor may copies hereof be delivered to, any other person without our prior written approval.

Very truly yours,

Schedule I

Fitch, Inc.  
One State Street Plaza  
New York, NY 10004  
Attention: ABS Surveillance

Moody's Investors Service, Inc.  
7 World Trade Center at  
250 Greenwich Street, 24<sup>th</sup> Floor  
New York, NY 10007  
Attention: ABS/RMBS Monitoring Department

Standard & Poor's Ratings Services  
55 Water Street  
New York, NY 10041  
Attention: Structured Credit Surveillance

As Representatives of the Purchasers named in Schedule I to the Bond Purchase Agreement:

Goldman, Sachs & Co.  
200 West Street  
New York, NY 10282-2198

Morgan Stanley & Co. LLC  
1585 Broadway, 11th Floor  
New York, NY 10036

The Bank of New York Mellon  
101 Barclay Street - Floor 7-W  
New York, New York 10286

Utility Debt Securitization Authority  
c/o Long Island Lighting Company d/b/a LIPA  
333 Earle Ovington Boulevard, Suite 403  
Uniondale, New York 11553

## APPENDIX F

### FORM OF THE CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of \_\_\_\_\_, 2013 (the “Continuing Disclosure Agreement”), is made by the Utility Debt Securitization Authority (the “Issuer”) and Long Island Lighting Company, d/b/a LIPA, in its capacity as Servicer (the “Servicer”), pursuant to the Servicing Agreement, dated December \_\_, 2013 (the “Servicing Agreement”), between the Issuer and the Servicer, and is being delivered in connection with the issuance and sale by the Issuer of its \$ \_\_\_\_\_ Restructuring Bonds, Series 2013T and Series 2013TE (the “Bonds”) pursuant to the terms of that certain Bond Indenture, dated as of December \_\_, 2013, between the Issuer and The Bank of New York Mellon, as Bond Trustee (as the same may be amended and supplemented from time to time, the “Indenture”), between the Issuer and the Trustee. Capitalized terms used but not defined herein shall have the meanings given such terms in the Indenture.

#### Article I. Definitions

- (a) “Annual Accountant’s Report” has the meaning given such term in Section 3.07(a) of the Servicing Agreement.
- (b) “Annual Financial Information” means the Annual Accountant’s Report and the Annual Servicer Information.
- (c) “Annual Servicer Information” means the Semi-Annual Servicer Certificates and the tabular information presented in the Official Statement under the headings “Servicer and Administrator – Credit Policy,” “– Billing Process,” “– Revenues,” “– LIPA’s Customer Base and Electric Energy Consumption,” “– Forecasting Electricity Consumption,” “– Loss Experience,” “– Days Sales Outstanding” and “– Write-Off and Delinquencies Experience.”
- (d) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to the Issuer and the Servicer.
- (e) “Compliance Certificate” shall mean the annual certificate as to compliance delivered pursuant to Section 3.06 of the Servicing Agreement.
- (f) “EMMA” means the MSRB’s Electronic Municipal Market Access system or its successor.
- (g) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any successor thereto or to the functions of the MSRB contemplated by this Continuing Disclosure Agreement.
- (h) “Notice Event” means any of the following events with respect to the Bonds:
  - (i) principal and interest payment delinquencies;
  - (ii) non payment related defaults, if material;
  - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (v) substitution of credit or liquidity providers, or their failure to perform;
  - (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2013TE Bonds, or other material events affecting the tax status of the Series 2013TE Bonds;
  - (vii) modifications to rights of Bondholders, if material;
  - (viii) bond calls, other than bond calls relating to mandatory sinking fund redemptions, if material, and tender offers;
  - (ix) defeasances;
  - (x) release, substitution, or sale of property securing repayment of the Bonds, if material;

- (xi) rating changes;
  - (xii) bankruptcy, insolvency, receivership or similar event of the Issuer<sup>1</sup>;
  - (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (i) “Notice Event Notice” means written or electronic notice of a Notice Event.
  - (j) “Official Statement” means the Official Statement, dated December 12, 2013, relating to the Bonds.
  - (k) “Reports to Holders” means the reports provided to Holders by the Bond Trustee pursuant to Section 6.06(b) of the Indenture.
  - (l) “Rule” means Rule 15c2 12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2 12), as in effect on the effective date hereof, including any official interpretations thereof.
  - (m) “SEC” means the United States Securities and Exchange Commission.
  - (n) “Semi-Annual Servicer Certificates” has the meaning given such term in Section 3 of Annex I to the Servicing Agreement.
  - (o) “State” means the State of New York.

## Article II. The Undertaking

Section 2.01 Purpose. This Continuing Disclosure Agreement is being executed, delivered and made solely to assist the underwriters of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.02 Undertaking. In accordance with Section 7.12 of the Servicing Agreement, the Servicer shall, as designated agent of the Issuer, for the sole benefit of the Bondholders (and, to the extent specified in this Article II, the beneficial owners) of the Outstanding Bonds, provide, in a timely manner, to the MSRB, through EMMA, in the format and including such identifying information as shall be prescribed by the MSRB:

- (a) not later than 180 days following the end of each fiscal year of the Issuer (x) an annual report of the Issuer, including, to the extent available, the Annual Accountant’s Report and Compliance Certificate and (y) the Annual Servicer Information;
- (b) not later than 30 days after the applicable Payment Date, the Report to Holders;
- (c) if a Notice Event occurs, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, a Notice Event Notice to the MSRB.

Section 2.03 Annual Accountant’s Report. If, and to the extent prepared, the contents, presentation and format of the Annual Accountant’s Report may thereafter be modified from time to time as determined in the judgment of the Issuer to conform to changes to the Rule to disclosure principles or practices and legal requirements followed by or applicable to the Issuer, provided that such modification shall comply with the requirements of the Rule. The annual financial statements of the Issuer for each fiscal year shall be prepared in accordance with generally accepted accounting principles in effect from time to time or mandated State statutory principles.

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<sup>1</sup> Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer. As provided in the Securitization Law, the Issuer is not authorized to file for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code.

Section 2.04 Limitations on Liability. The Servicer does not undertake to provide such notice with respect to: (x) credit enhancement if the enhancement is added after the primary offering of the Bonds, the Issuer does not apply for or participate in obtaining the enhancement, and the enhancement is not described in the applicable official statement of the Issuer; or (y) tax exemption other than pursuant to the Act or the Securitization Law.

Section 2.05 Remedies.

- (a) In addition to the Trustee's and Holders' remedies specified in the Basic Documents, any beneficial owner of the Bonds described in this Section may bring a Proceeding to enforce this Continuing Disclosure Agreement without acting in concert if (1) such owner shall have filed with the Servicer evidence of beneficial ownership and written notice of, and request to cure, the alleged breach, (2) the Servicer shall have failed to comply within a reasonable time, and (3) such beneficial owner stipulates that (A) no challenge is made to the adequacy of any information provided in accordance with this Continuing Disclosure Agreement and (B) no remedy is sought other than substantial performance of this Continuing Disclosure Agreement. To the extent permitted by law, each beneficial owner agrees that all such proceedings shall be instituted only as specified herein, and for the equal benefit of all such owners of the Outstanding Bonds benefited by the same or a substantially similar undertaking.
- (b) For the purposes of this Section, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares investment power which includes the power to dispose, or to direct the disposition of, such security, except that a person who in the ordinary course of business is a pledgee of securities under a written pledge agreement shall not be deemed to be the beneficial owner of such pledged securities until the pledgee has taken all formal steps to declare a default and determines that the power to dispose or to direct the disposition of such pledged securities will be exercised, provided that:
  - (i) the pledge agreement is bona fide;
  - (ii) the pledgee is:
    - 1) a broker or dealer registered under § 15 of the Exchange Act;
    - 2) a bank as defined in § 3(a)(6) of the Exchange Act;
    - 3) an insurance company as defined in § 3(a)(19) of the Exchange Act;
    - 4) an investment company registered under § 8 of the Investment Company Act;
    - 5) an investment adviser registered under § 203 of the Investment Advisers Act of 1940;
    - 6) an employee benefit plan, or pension fund which is subject to the provisions of ERISA or an endowment fund;
    - 7) a parent holding company, provided the aggregate amount held directly by the parent, and directly and indirectly by its subsidiaries which are not persons specified in items (1) through (6) of this clause (ii) does not exceed 1% of the securities of the subject class; or
    - 8) a group, provided that all the members are persons specified in items (1) through (7) of this clause (ii); and
  - (iii) the pledge agreement, prior to default, does not grant to the pledgee the power to dispose or direct the disposition of the pledged securities, other than the grant of such power(s) pursuant to a pledge agreement under which credit is extended subject to Regulation T



(12 CFR 220.1 to 220.8) and in which the pledgee is a broker or dealer registered under § 15 of the Exchange Act.

- (c) Any amendment of this Continuing Disclosure Agreement may only be entered into:
- (i) if all or any part of the Rule, as interpreted by the staff of the SEC at the date hereof, ceases to be in effect for any reason and the Issuer and the Servicer elect that this Continuing Disclosure Agreement shall be deemed terminated or amended (as the case may be) accordingly, or
  - (ii) if:
    - 1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer and the Servicer, as the case may be, or type of business conducted,
    - 2) this Continuing Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the date hereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and
    - 3) the amendment does not materially impair the interests of the Holders of each affected Tranche of Bonds, as determined by parties unaffiliated with the Issuer and the Servicer (such as, but without limitation, counsel to the Issuer and the Servicer) or by Holder consent pursuant to the Basic Documents.

Section 2.06 Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Issuer or the Servicer from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or Notice Event Notice, in addition to that which is required by this Continuing Disclosure Agreement. If the Issuer or the Servicer choose to include any information in any Annual Financial Information or Notice Event Notice in addition to that which is specifically required by this Continuing Disclosure Agreement, the Issuer and the Servicer shall have no obligation under this Continuing Disclosure Agreement to update such additional information or include it in any future Annual Financial Information or Notice Event Notice.

### Article III. Operating Rules

Section 3.01 Reference to Other Documents. It shall be sufficient for purposes of Section 2.02 hereof if the Servicer provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section shall not apply to Notice Event Notices pursuant to Section 2.02(iv) hereof.

Section 3.02 Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 3.03 Dissemination Agents. The Servicer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Servicer under this Continuing Disclosure Agreement, and revoke or modify any such designation.

Section 3.04 Transmission of Notices, Documents and Information.

- (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to EMMA, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).
- (b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

Article IV. Effective Date, Successor Servicer, Termination and Execution

Section 4.01 Effective Date. This Continuing Disclosure Agreement and the provisions hereof shall be effective upon the issuance of the Bonds.

Section 4.02 Successors Servicer. As provided in Sections 6.04(b) and 7.12 of the Servicing Agreement, the duties of LIPA under this Continuing Disclosure Agreement shall be performed by any Successor Servicer appointed under the terms of the Servicing Agreement.

Section 4.03 Termination.

- (a) The Servicer's obligations under this Continuing Disclosure Agreement shall terminate with respect to Bonds of a Tranche upon a Legal Defeasance pursuant to Section 4.01 of the Indenture, prior redemption or payment in full of such Bonds of a Tranche.
- (b) This Continuing Disclosure Agreement, or any provision hereof, shall be null and void in the event that the Issuer and the Servicer (1) receives an Opinion of Counsel to the effect that those portions of the Rule which require this Continuing Disclosure Agreement, or such provisions, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) deliver copies of such opinion to the MSRB.

Section 4.04 Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same agreement.

[Signature Page to Continuing Disclosure Agreement]

UTILITY DEBT SECURITIZATION AUTHORITY

By: \_\_\_\_\_  
Name:  
Title:

LONG ISLAND LIGHTING COMPANY

By: \_\_\_\_\_  
Name:  
Title:

## SCHEDULE 1

### Book-Entry-Only System

*The Role of DTC, Clearstream and Euroclear.* Cede & Co., as nominee for DTC, will hold the Bonds. Clearstream and Euroclear will hold omnibus positions on behalf of the Clearstream customers and Euroclear participants, respectively, through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries. These depositaries will, in turn, hold these positions in customers' securities accounts in the depositaries' names on the books of DTC.

*The Function of DTC.* DTC is a limited purpose trust company organized under the laws of the State of New York and is a member of the Federal Reserve System. DTC is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entries, thereby eliminating the need for physical movement of bonds. Direct participants of DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include other organizations, including the Underwriters. Indirect access to the DTC system also is available to others, including banks, brokers, dealers and trust companies, as indirect participants, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

*The Function of Clearstream.* Clearstream is incorporated under the laws of Luxembourg and is an indirect wholly-owned subsidiary of Deutsche Borse AG. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of securities. Transactions may be settled by Clearstream in any of various currencies, including United States dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing and collateral management. Clearstream also deals with domestic securities markets in various countries through established depositary and custodial relationships. Clearstream is registered as a bank in Luxembourg and, therefore, is subject to regulation by the Commission de Surveillance du Secteur Financier, which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, among others, and may include the Underwriters of the Bonds. Clearstream's United States customers are limited to securities brokers and dealers and banks. Clearstream has customers located in various countries. Indirect access to Clearstream is also available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., as the operator of the Euroclear System, in Brussels to facilitate settlement of trades between Clearstream and Euroclear.

*The Function of Euroclear.* Euroclear was created in 1968 to hold securities for Euroclear participants and to facilitate the clearance and settlement of securities between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Such transactions may be settled in any of various currencies, including United States dollars. The Euroclear System includes various other services, credit custody, including securities lending and borrowing, tri-party collateral management and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below. Euroclear participants include central banks and other banks, securities brokers and dealers and other professional intermediaries and may include the Underwriters of the Bonds. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is operated under the laws of Belgium as a bank and is subject to regulation by the Belgian Banking and Finance Commission and the National Bank of Belgium. The Euroclear system is owned by Euroclear PLC and operated through a license agreement by Euroclear Bank S.A./N.V. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash deposits are accounts with the Euroclear operator.

*Terms and Conditions of Euroclear.* Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear and applicable Belgian law. These terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in

Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific securities to specific securities clearance accounts. Euroclear acts under these terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

*The Rules for Transfers Among DTC, Clearstream or Euroclear Participants.* Transfers between DTC participants will occur in accordance with DTC rules. Transfers between Clearstream customers or Euroclear participants will occur in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its depository; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines, which will be based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving the Bonds in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to Clearstream's and Euroclear's depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a participant will be made during the subsequent securities settlement processing, dated the Business Day following the DTC settlement date, and those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream customer or Euroclear participant on that Business Day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

*DTC Will Be the Holder of the Bonds.* Holders that are not participants or indirect participants but desire to purchase, sell or otherwise transfer ownership of, or other interest in, Bonds may do so only through participants and indirect participants of DTC. In addition, Holders will receive all distributions of principal of and interest on the Bonds from the Trustee through the participants, who in turn will receive them from DTC. Under a book-entry format, Holders may experience some delay in their receipt of payments because payments will be forwarded by the Trustee to Cede & Co., as nominee for DTC. DTC will forward those payments to its participants, who thereafter will forward them to indirect participants or Holders. It is anticipated that the only "Holder" will be Cede & Co., as nominee of DTC. The Trustee will not recognize any other person as Bondholders, as that term is used in the Indenture, and Holders will be permitted to exercise the rights of Holders only indirectly through the participants, who in turn will exercise the rights of Holders through DTC.

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers among participants on whose behalf it acts with respect to the Bonds and is required to receive and transmit distributions of principal and interest on the Bonds. Participants and indirect participants with whom Holders have accounts with respect to the Bonds similarly are required to make book-entry transfers and receive and transmit those payments on behalf of their respective Holders. Accordingly, although Holders will not possess the Bonds, Holders will receive payments and will be able to transfer their interests.

Because DTC can act only on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a Holder to pledge Bonds to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of those Bonds, may be limited due to the lack of a physical certificate for those Bonds.

DTC has advised it will take any action permitted to be taken by a Bondholder under the Resolution only at the direction of one or more participants to whose account with DTC the Bonds are credited. Additionally, DTC has advised it will take those actions with respect to specified percentages of the Outstanding Amount of the Bonds or any tranche thereof only at the direction of and on behalf of participants whose holdings include interests that satisfy those specified percentages. DTC may take conflicting actions with respect to other interests to the extent that those actions are taken on behalf of participants whose holdings include those interests.

*How Bond Payments Will Be Credited by Clearstream and Euroclear.* Distributions with respect to the Bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream customers or

Euroclear participants in accordance with the relevant system's rules and procedures, to the extent received by its depository. Those distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See "TAX MATTERS" in this Official Statement. Clearstream or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a Holder under the Indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depository's ability to effect those actions on its behalf through DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform those procedures, and those procedures may be discontinued at any time.