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Ratings

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Presale:

Utility Debt Securitization Authority (Series 2016B)

$475.260 Million Restructuring Bonds Series 2016B

This presale report is based on information as of July 29, 2016. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Ratings As Of July 29, 2016

Class	Preliminary rating(i)	Preliminary amount ($)	Expected final maturity	Expected number of payments	Legal final maturity
A1	AAA (sf)	25,190,000	6/15/2017	1	6/15/2019
A2	AAA (sf)	32,225,000	12/15/2017	1	12/15/2019
A3	AAA (sf)	40,500,000	6/15/2018	1	6/15/2020
A4	AAA (sf)	41,515,000	12/15/2018	1	12/15/2020
A5	AAA (sf)	13,735,000	6/15/2020	1	6/15/2022
A6	AAA (sf)	14,075,000	12/15/2020	1	12/15/2022
A7	AAA (sf)	31,620,000	6/15/2021	1	6/15/2023
A8	AAA (sf)	32,410,000	12/15/2021	1	12/15/2023
A9	AAA (sf)	44,890,000	6/15/2022	1	6/15/2024
A10	AAA (sf)	46,015,000	12/15/2022	1	12/15/2024
A11	AAA (sf)	12,890,000	6/15/2023	1	6/15/2025
A12	AAA (sf)	13,215,000	12/15/2023	1	12/15/2025
A13	AAA (sf)	2,895,000	6/15/2025	1	6/15/2027
A14	AAA (sf)	2,970,000	12/15/2025	1	12/15/2027
A15	AAA (sf)	36,560,000	12/15/2028	2	12/15/2030

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Preliminary Ratings As Of July 29, 2016 (cont.)

Class	Preliminary rating(i)	Preliminary amount ($)	Expected final maturity	Expected number of payments	Legal final maturity
A16	AAA (sf)	4,260,000	12/15/2030	2	12/15/2032
A17	AAA (sf)	26,740,000	12/15/2031	2	12/15/2033
A18	AAA (sf)	28,085,000	12/15/2032	2	12/15/2034
A19	AAA (sf)	25,470,000	12/15/2033	2	12/15/2035

(i)The rating on each class is preliminary and subject to change at any time.

Profile

Expected closing date	Sept. 8, 2016.
Collateral	Restructuring property.
Issuer	Utility Debt Securitization Authority.
Servicer	Long Island Lighting Co.
Indenture trustee	The Bank of New York Mellon.
Payment dates	Payments are made semiannually; interest and principal payments start June 2017.

Rationale

The preliminary ratings assigned to Utility Debt Securitization Authority's tax-exempt restructuring bonds series 2016B are based on the trust's structure and the issuer's irrevocable right to impose, charge, and collect nonbypassable electric-usage-based charges (restructuring charges) from retail electric delivery service customers of Long Island Lighting Co. (LIPA). LIPA is a wholly owned subsidiary of the Long Island Power Authority (the Authority), which is the seller of the restructuring property. The primary purpose of this issuance is to enable the Authority to retire some of its outstanding debt.

The nonbypassable charges are adjusted periodically based on updated assumptions to various factors--such as energy usage and charge-off rates--to ensure collections are sufficient to make all payments, including debt service costs and ongoing financing costs, due on the payment dates.

The issuer is a special-purpose corporate municipal instrumentality, body corporate and politic, political subdivision, and New York public benefit corporation created by the LIPA Reform Act's securitization law (Part B of Chapter 173, Laws of New York State, 2013). The issuer has no commercial operations and was formed solely to purchase and own the restructuring property, to issue the bonds to be secured by the restructuring property, and to perform any incidental activity.

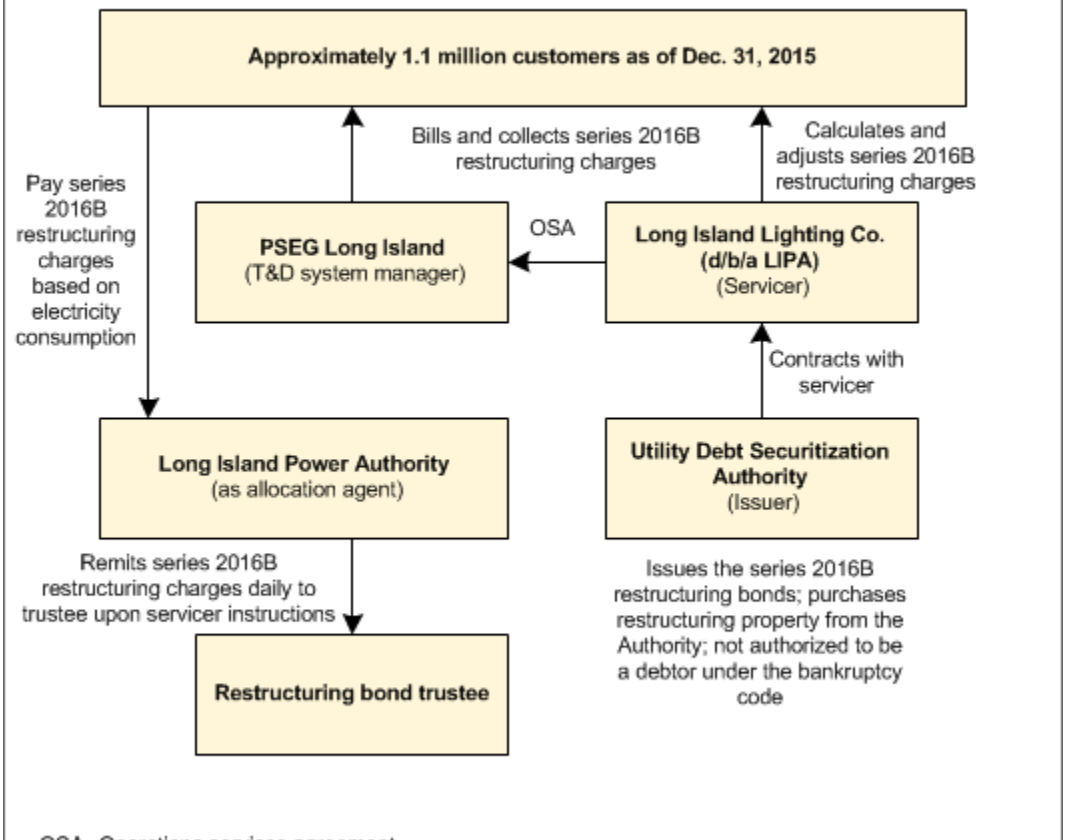
Our preliminary ratings on the restructuring bonds reflect our view of each class' ability to withstand our cash flow stress scenarios and the transaction's reserve subaccount, which functions as a reserve account to cover potential shortfalls. The transaction also benefits from additional credit strength because of the length of time between each tranche's expected and legal final maturity dates, which we accounted for in our analysis.

Transaction Overview

Our preliminary ratings address timely interest and full principal payments by each class' final legal maturity date, which, under the preliminary structure, is two years after each class' expected maturity date.

The following chart represents a general summary of the parties to the transactions underlying the offering of the series 2016B restructuring bonds, their roles, and their various relationships to the other parties.

Transaction Structure



OSA--Operations services agreement.

Strengths

In our view, the following factors strengthen the transaction:

- There is a true-up mechanism and irrevocable financing order that requires the servicers to file periodic adjustments (true-ups) to the restructuring charges. The true-ups aim to maintain sufficient cash flows for each class' timely

repayment of interest, principal, administrative costs, the replenishment of the reserve subaccount, and the funding of various collection subaccounts. The servicer must file true-ups at least annually (after the first 12 months). True-ups may occur semiannually if, following a mid-year review process, the servicer determines that collections will not be sufficient to make the anticipated scheduled payments. True-ups may occur as frequently as quarterly once any of the bonds are not repaid by the last scheduled maturity date of any series of bonds. There is sufficient time between each class' expected maturity date and legal final maturity date for the true-up mechanism to adjust the restructuring charges if necessary because of any shortfalls.
- There is no dollar cap limit in the financing order.
- The restructuring charges are cross-collateralized by all customer classes.
- Any successor to LIPA's electrical distribution systems must perform the servicing function.

Weaknesses

In our view, the following factors may weaken the transaction:

- The deal could experience significant forecasting variance due to inaccurate forecasting assumptions and unpredictable events (natural disasters).
- Electricity consumption can be volatile.
- There is reliance on the seller and its agents for their servicing practices to remain consistent and to not impair the restructuring charges. In addition, there is some commingling risk.
- In contrast to other recent utility securitizations backed by rate payer charges, this transaction has a greater annual debt service variance. In certain years when the scheduled principal is light, the scheduled collection will also be light. Interest payments, which cannot be missed, represent a greater percentage of the collection in those years and in our opinion have a higher level of liquidity risk.

Mitigating Factors

In our view, the following factors mitigate the restructuring bonds weaknesses:

- Under our stress assumptions, which include large decreases in electricity consumption, the deal still pays in full before the final maturity date of each tranche.
- The effect of consumption volatility is mitigated by the true-up and the ability to draw from the operating reserve subaccount and a debt service reserve subaccount. The operating reserve subaccount is funded with 0.50% of the initial bond principal amount. The debt service reserve account is funded with 1.5% of the bond principal amount outstanding minus the minimum expected amortization on any subsequent payment dates.
- The total amount of the restructuring charges on the typical retail customer's electric bill--both initially and in our stress scenarios--is not sufficient for us to consider the possibility of a situation in which customers' revolt and refuse to pay.
- We stressed the cash flows for potential collection losses due to the bankruptcy of the sellers as servicers as well as commingling risk. We believe that any replacement servicer would face the same regulatory and economic environment; therefore, we do not expect significant changes in servicing practices if the servicer were to be replaced.
- The restructuring charges are not subject to the lien that secures the Authority's existing secured debt.
- We applied a stress scenario (discussed in the Cash Flow Analysis section below) to test the liquidity support in years when scheduled principal amortization is light.

Prior Transaction And Proposed Future Transactions

The series 2016B restructuring bonds are the issuer's fourth issuance of restructuring bonds. The series 2013 issuance of $2,022,324,000 was the first securitization under the LIPA Reform Act, per Restructuring Cost Financing Order No. 1, the series 2015 issuance of $1,002,115,000 was the second securitization under the LIPA Reform Act, per Restructuring Cost Financing Order No. 2, and the series 2016A issuance of $636,770,000 was the third issuance under the LIPA Reform Act, per Restructuring Cost Financing Order No. 3. Pursuant to the amended securitization law, the issuer may issue additional restructuring bonds subject to a cap of $4.5 billion, including the series 2013, 2015, and 2016 issuances. Any additional issuance of restructuring bonds will be separately secured by distinct collateral, including separate restructuring property, created pursuant to a new financing order and transaction documents, including a separate trust indenture. All such financing orders are substantively the same, and each order permits the issuer to issue additional restructuring bonds up to the cap.

Sector Outlook

Historically and in recent years, some of the key factors for investors' interest in stranded costs securitizations are local economic conditions and the utility's ability to generate a constructive regulatory outcome. In New York, as is the case recently in many other states, securitization continues to be viewed as a tool for utilities to recoup costs efficiently, given recently passed legislation. This transaction is the fourth time LIPA has used securitization to reduce debt costs under the LIPA Reform Act passed on June 21, 2013, by the New York State Assembly and Senate (Chapter 173).

Securitization Law And Financing Order

The securitization law aims to create the issuing entity and provide a legislative foundation for its restructuring bond issuance to allow the Authority to retire a portion of its outstanding debt. This is expected to help customers save money on a net present value basis.

The securitization law authorizes the Authority to adopt a financing order approving the restructuring bond issuance. The securitization law also provides that any financing order will be irrevocable after the time for any appeal to that financing order has lapsed. The securitization law requires that the issuer use bond proceeds to purchase the restructuring property from the Authority and to pay or fund upfront financing costs. It also requires that the Authority use the bond proceeds it receives from its sale of the restructuring property to the issuer only to pay approved restructuring costs that include, according to the financing order, repurchasing, redeeming, repaying, or defeasing some of the Authority's outstanding debt.

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:

- Take or permit any action that limits, alters, or impairs the value of the restructuring property;
- 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
- Except as permitted in connection with a true-up adjustment mechanism authorized by the securitization law and set forth in the Financing Order No. 4, 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, interest, redemption price, if any, 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.

The Servicer And Customer Base

LIPA provides electric transmission and distribution services in a geographical area that includes Nassau and Suffolk counties (with certain limited exceptions) and a small portion of Queens County (known as the Rockaways) in New York. The Authority and LIPA have entered into agreements with third parties to provide the service and maintenance functions in connection with their operations.

LIPA's service area includes approximately 1.1 million customers. Its peak usage--approximately 5,771 megawatts--was in the summer of 2011. As of Dec. 31, 2015, about 54.4% of the utility's annual electric revenues were from residential customers, with 43.5% coming from commercial customers and about 2.1% from street lighting, sales to public authorities, and miscellaneous others. LIPA's largest customer, the Long Island Rail Road, accounts for less than 2% of LIPA's total sales and revenue.

LIPA, acting as initial servicer pursuant to the servicing agreement, or any successor servicer as provided by Financing Order No. 4, will be responsible for the servicing of the series 2016B restructuring property, including the billing and collection of the series 2016B restructuring charges securing the series 2016B restructuring bonds on the issuer's behalf. The issuer and LIPA will also enter into an administration agreement pursuant to which LIPA, acting as administrator, will perform certain duties on the issuer's behalf.

On Jan. 1, 2014, LIPA entered into an operations services agreement with PSEG Long Island (PSEG-LI), whereby PSEG-LI will provide operations, maintenance, and related services including billing and collections.

Within the retail customer base, there are different customer classes classified by the type of electric usage (see table 1 for the average number of metered customers by class).

Table 1

Service Territory Average Number Of Metered Customers

(As of year-end 2015)

Class	No. of metered customers
Residential	1,002,942
Commercial	114,648
Street lighting	5,451

Table 1

Service Territory Average Number Of Metered Customers (cont.)

(As of year-end 2015)

Class	No. of metered customers
Other public authorities	131
Total	1,123,172

The total actual electric consumption compared with the forecasted electric consumption, in megawatt hours for the last five full years, are shown in table 2.

Table 2

Total Actual Versus Forecasted Electric Consumption (In Megawatt Hours)

Class	Actual	Forecast	Variance (%)
2011	20,156,783	19,831,948	1.64
2012	19,953,617	20,614,152	(3.20)
2013	19,931,093	20,460,570	(2.60)
2014	19,687,062	20,258,158	(2.82)
2015	19,925,639	20,077,119	(0.75)

Structural Analysis

The bonds' principal will be paid sequentially according to an expected maturity date, and interest will be paid pro rata.

If an event of default occurs, both principal and interest will be paid pro rata. A failure to pay principal by each class' expected maturity date is not considered an event of default. However, principal must be paid in full by each series' legal final maturity date.

Our preliminary ratings on the bonds address timely interest and full principal payments by each class' legal final maturity, which is two years after the expected maturity date.

The following are events of default with respect to the bonds:

- Failure to pay interest or the redemption price within five business days when due and payable;
- Failure to pay principal by each class' legal final maturity date;
- The issuer fails to observe or perform any material covenant or agreement or on any representation and warranty, and subsequent remedial action is not taken or cured within 30 days after the date the notice of default is given or the notice is given by the holders of at least 25% of the bonds' outstanding amount;
- A court with appropriate jurisdiction files a decree or order of relief under any applicable bankruptcy, insolvency, or other similar law that remains unstayed for 90 consecutive days;
- Commencement against or consent by a bond issuer of a voluntary bankruptcy, insolvency, or other similar law;
- The bond issuer consents to appoint a receiver, liquidation, or similar official;
- Making of a bond issuer of any assignment for benefit of creditors;
- The issuer fails to pay its debt; and

- The State of New York or any of its agencies, officers, or employees violate the state pledge of financing order.

Acceleration of the bonds will remedy an event of default; however, in practice, the bond payments will be made as and when the funds become available from retail customer payments. The following are events of default with respect to the servicer's role:

- Failure to remit payments within five business days;
- Failure to observe or perform any covenant or agreement, and subsequent remedial action is not taken within 60 days after the date that the issuer, Authority, the allocation agent, the administrator, or the bond trustee gives written notice of the default or after an officer of the servicer discovers such failure;
- Any representation or warranty made by the servicer is incorrect and has a material adverse effect and continues unremedied for 60 days after written notice is given; and
- An insolvency event occurs with respect to the servicer.

Payment Waterfall

Table 3

Payment Waterfall	
1	All fees, costs, expenses (including legal fees and expenses), and to the extent not exceeding $800,000 in each calendar year, indemnities.
2	The servicing fee for the payment date and any unpaid servicing fees from prior payment dates not to exceed 0.6% of the bonds' aggregate initial principal amount.
3	Administration fee ($100,000 annually) and all unpaid administration fees from previous payment dates will be paid to the administrator and amounts due to trustees of the issuer.
4	All other operating expenses for such payment date.
5	Any overdue semiannual interest and second, semiannual interest.
6	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 class/tranche of the bonds.
7	Semiannual principal will be paid to the holders according to the bonds' maturity date schedule.
8	Indemnity amounts owed by the issuer to the trustee if they exceed $800,000 in each calendar year.
9	The servicing fee for the payment date and any unpaid servicing fees from prior payment dates if they exceed 0.6% of the bonds' aggregate initial principal amount.
10	To the debt service reserve subaccount the amount, if any, by which the required debt service reserve level exceeds the amount in the debt service reserve subaccount as of the payment date.
11	To the operating reserve subaccount, the amount, if any, by which the required operating reserve level exceeds the amount in the operating reserve subaccount as of the payment date.
12	Any amount over the required debt service reserve level will be retained in the debt service reserve subaccount to be applied to items 5 and 7 above on the next payment date. Any remaining excess will be held in the account and applied on the succeeding payment dates.
13	The balance, if any, to the excess funds subaccount for distribution on subsequent payment dates.

Cash Flow Analysis

We stressed the expected-case cash flow analysis using the forward customer usage forecasts, assumed collections, and charge-off experience. The annual forecast to actual electricity usage differed among the customer classes. However, we believe that the stresses we applied to the collections in our cash flow analysis are sufficient to cover the levels of variance shown by the historical data across all customer classes, consistent with the assigned preliminary

ratings.

We stressed the expected forward cash flows as follows: For all scenarios, we used the forward forecast of electric usage provided by each seller. We applied the starting recovery charges and adjusted the charge semiannually based on stressed electric consumption. We increased annual charge-offs by five times the average actual annual charge-off percentage experienced by the seller in the last five years. We applied a three-month expected collection curve to lag the actual collections based on historical data. The coupon rate on each class was set based on expected market conditions for that debt at issuance.

We used four scenarios of revenue declines and collection stresses to assign the preliminary ratings.

Scenario 1

- Apply a constant 12% annual revenue decline to all users starting in the first year. Maintain this decline until a specified total cumulative revenue decline of 60% is achieved. Afterwards, maintain revenues flat for the duration of the transaction.
- Assume zero sales for December and January of each year for all users. This stress simulates an annual servicer default and replacement where parts of the collections are lost.
- Because the concentration of large industrial electric customers in the service territory is not large, we did not default the largest 10 industrial customers one year before the bonds' expected final maturity.

Scenario 2

- Apply a constant 12% annual revenue decline to all users starting in the second year of the transaction. Maintain this decline until a specified total cumulative revenue decline of 60% is achieved. Afterwards, maintain revenues flat for the duration of the transaction.
- Assume zero sales for December and January of each year for all users. This stress simulates an annual servicer default and replacement where parts of the collections are lost.

Scenario 3

- Assume zero sales for December and January of each year for all users. This stress simulates an annual servicer default and replacement where parts of the collections are lost.
- Oscillate sales by first decreasing and then increasing sales by 20% per year over the life of the deal.

Scenario 4

- Assume zero sales for December and January of each year for all users. This stress simulates an annual servicer default and replacement where parts of the collections are lost.
- Oscillate sales by first increasing and then decreasing sales by 20% per year over the life of the deal.

Scenario 2 was added to address our concerns on liquidity in years when the principal amortization is light. In any given year, timely interest payments cannot be missed, whereas missed scheduled principal amortization can be added to the next period's true-up amount without causing an event of default (before the principal legal final maturity). This provision essentially turns scheduled principal amortization in that period into a form of liquidity support in addition to the transaction's funded and periodically replenished reserve account.

We reviewed the cash flow models for all four scenarios highlighted above. The cash flow results show that the bonds' interest is paid on time and that all principal is ultimately paid before the legal final maturity date for each series under each scenario. The main factor contributing to the principal payment by each class' legal final maturity is the true-up

rate mechanism that adjusts the restructuring charge to recovery sufficient funds to repay the bonds as due.

Legal Considerations

The issuer is a special-purpose, corporate municipal instrumentality, body corporate and politic, political subdivision, and New York public benefit corporation. We expect that the issuer will comply with our bankruptcy-remoteness criteria. In rating this transaction, S&P Global Ratings will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

Related Criteria And Research

Related Criteria

- Global Investment Criteria for Temporary Investments in Transaction Accounts, May 31, 2012
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- U.S. Legal Criteria For "Recycled" Special-Purpose Entities, Sept. 19, 2002
- Securitizing Stranded Costs, Jan. 18, 2001

Related Research

- Cash Flow Analyses Are Not Generally Needed for Rate Reduction Bond Transaction Surveillance Due to True-Up Mechanisms, June 11, 2015
- Global Structured Finance Scenario and Sensitivity Analysis: Understanding the Effects of Macroeconomic Factors on Credit Quality, July 2, 2014
- The Recession Hasn't Been Hard On "Ratepayer Obligation Charge" Bonds, July 8, 2009

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

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