

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

Quarterly Unaudited Financial Report

For the nine-month period ended September 30, 2017

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Introduction

The UDSA was created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the “Securitization Law”). The Securitization Law allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Securitization Law permits the Authority’s Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA may issue Restructuring Bonds in an amount not to exceed a \$4.5 billion statutory authorized amount (inclusive of any previously issued Restructuring Bonds). The Restructuring Bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all Authority customer bills. On October 3, 2013, the Authority’s Board adopted Financing Order No. 1. On June 26, 2015, the Authority’s Board adopted Financing Orders No. 2, No. 3 and No. 4, which allowed the UDSA to issue additional Restructuring Bonds during 2015 and 2016. All such financing orders are substantively the same and each permits the UDSA to issue Restructuring Bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law. Each such financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. Through the end of 2016, \$4.13 billion of UDSA Restructuring Bonds were issued.

On July 26, 2017, the Authority’s Board adopted Financing Order No. 5 permitting the Authority to issue the remaining authorized principal amount of bonds to refinance certain debt of the Long Island Power Authority. In October 2017, the Authority issued 2017 Restructuring Bonds totaling approximately \$369.5 million and such bonds are scheduled to close on November 21, 2017.

Overview of the Financial Statements

The UDSA’s financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Management’s Discussion and Analysis provides an overview of the UDSA for the nine-month period ended September 30, 2017 compared to 2016. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the UDSA’s website at www.lipower.org/UDSA.

Contacting the Utility Debt Securitization Authority

This financial report provides the UDSA’s bondholders, and other interested parties, with a general overview of the UDSA’s finances and to demonstrate its accountability for the funds it receives. If you have questions about this report or need additional information, contact the Utility Debt Securitization Authority, in care of the Long Island Power Authority, at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the UDSA’s website at www.lipower.org/UDSA.

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Statements of Net Position

September 30, 2017 and December 31, 2016

(Amounts in thousands)

	2017	2016
	(unaudited)	(audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 152,173	88,572
Accounts receivable (net of uncollectible accounts of \$150 and \$156, respectively)	60,481	39,436
Prepaid assets	22	259
Total current assets	212,676	128,267
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,277,269	4,359,428
Regulatory asset - unamortized debt issuance costs	22,484	24,319
Total noncurrent assets	4,299,753	4,383,747
Total assets	\$ 4,512,429	4,512,014
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 100,620	72,598
Accrued interest	54,015	14,693
Accrued expenses	786	2,817
Total current liabilities	155,421	90,108
Noncurrent liabilities:		
Long-term debt, including unamortized premium	4,267,473	4,360,731
Net position - restricted	89,535	61,175
Total liabilities and net position	\$ 4,512,429	4,512,014

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Nine-month period ended September 30, 2017 and 2016
(unaudited)
(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 221,600	217,211
Operating expenses:		
Amortization of restructuring property	82,159	69,629
Provision for uncollectible accounts	904	1,129
Servicing, administrative and other fees	<u>2,221</u>	<u>1,969</u>
Total operating expenses	85,284	72,727
Operating income	<u>136,316</u>	<u>144,484</u>
Other income	594	127
	<u>136,910</u>	<u>144,611</u>
Interest charges:		
Interest expense	138,938	117,551
Other interest expense	218	209
Amortization of restructuring bond premium and issuance costs	<u>(30,606)</u>	<u>(20,114)</u>
Total interest charges	108,550	97,646
Change in net position	<u>28,360</u>	<u>46,965</u>
Net position, beginning of year	<u>61,175</u>	<u>25,602</u>
Net position, end of period	<u>\$ 89,535</u>	<u>72,567</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Nine-month period ended September 30, 2017 and 2016

(unaudited)

(Amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Operating revenues received	\$ 199,705	171,882
Paid to suppliers:		
General and administrative fees	(4,292)	(480)
Net cash provided by operating activities	195,413	171,402
Cash flows from investing activities:		
Restructuring property	—	(1,308,434)
Earnings received	594	127
Net cash provided by (used in) investing activities	594	(1,308,307)
Cash flows from financing activities:		
Proceeds from issuance of restructuring bonds	—	1,338,384
Interest paid	(99,616)	(73,738)
Redemption of long-term debt	(32,790)	(30,000)
Bond issuance and bond administration costs	—	(7,529)
Net cash (used in) provided by financing activities	(132,406)	1,227,117
Net (decrease) increase in restricted cash and cash equivalents	63,601	90,212
Restricted cash and cash equivalents, beginning of year	88,572	33,518
Restricted cash and cash equivalents, end of period	\$ 152,173	123,730
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 136,316	144,484
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	82,159	69,629
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	(2,017)	1,489
Accounts receivable	(21,045)	(44,200)
Net restricted cash provided by operating activities	\$ 195,413	171,402

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2017 Compared to 2016

The UDSA change in net position for the nine-month period ended September 30, 2017 showed a decrease of \$6 million in the change in net position compared to the first nine months of 2016. The net position and changes in net position reflect the timing differences between the accrual-based accounting required under generally accepted accounting principles and the ratemaking treatment followed by the UDSA. The UDSA's Restructuring Charge is set at an amount sufficient to recover the debt service payments and other cash operating expenses that the UDSA incurs in any year, which may differ from the accrued revenue and expenses recognized.

Operating Revenues

Operating revenue increased \$4 million compared to 2016 due primarily to revenue from the Restructuring Bonds issued in September 2016.

Operating Expenses

Operating expenses increased \$13 million compared to 2016 primarily due to the increase in the amortization of the Restructuring Property. The UDSA recognizes the amortization of the Restructuring Property on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds. Scheduled 2017 debt maturities are slightly higher than 2016 resulting in the higher amortization of the Restructuring Property.

Nonoperating Expenses

Interest charges increased \$11 million compared to 2016 due to the Restructuring Bonds issued in 2016. During 2016, the UDSA issued \$636.8 million of 2016A Restructuring Bonds and \$469.3 million of 2016B Restructuring Bonds.