

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

Quarterly Unaudited Financial Report

For the three month period ended March 31, 2017

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Introduction

The Utility Debt Securitization Authority (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 Restructuring Bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all Authority customer bills. The Authority's Board adopted Financing Orders to issue additional Restructuring Bonds. 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, a total of \$4.13 billion of UDSA Restructuring Bonds have been issued, with \$369 million of statutory capacity remaining. A new financing order will be required to use the remaining capacity.

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 three month period ended March 31, 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.

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position
(Amounts in thousands)

	<u>March 31, 2017</u> (unaudited)	<u>December 31, 2016</u> (audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 148,598	88,572
Accounts receivable (net of uncollectible accounts of \$148 and \$156, respectively)	38,465	39,436
Prepaid assets	180	259
Total current assets	<u>187,243</u>	<u>128,267</u>
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,339,533	4,359,428
Regulatory asset - unamortized debt issuance costs	23,702	24,319
Total noncurrent assets	<u>4,363,235</u>	<u>4,383,747</u>
Total assets	<u>\$ 4,550,478</u>	<u>4,512,014</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 72,598	72,598
Accrued interest	61,353	14,693
Accrued expenses	871	2,817
Total current liabilities	<u>134,822</u>	<u>90,108</u>
Noncurrent liabilities:		
Long-term debt, including unamortized premium	<u>4,349,862</u>	<u>4,360,731</u>
Net position - restricted	65,794	61,175
Total liabilities and net position	<u>\$ 4,550,478</u>	<u>4,512,014</u>

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)
Statements of Revenues, Expenses, and Changes in Net Position
Three month period ended March 31, 2017 and 2016
(unaudited)
(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 61,643	66,384
Operating expenses:		
Amortization of restructuring property	19,894	15,672
Provision for uncollectible accounts	137	270
Servicing, administrative and other fees	695	545
Total operating expenses	<u>20,726</u>	<u>16,487</u>
Operating income	<u>40,917</u>	<u>49,897</u>
Other income	122	15
	<u>41,039</u>	<u>49,912</u>
Interest charges:		
Interest expense	46,660	33,473
Other interest expense	12	30
Amortization of restructuring bond premium and issuance costs, net	(10,252)	(4,660)
Total interest charges	<u>36,420</u>	<u>28,843</u>
Change in net position	<u>4,619</u>	<u>21,069</u>
Net position, beginning of year	<u>61,175</u>	<u>25,602</u>
Net position, end of period	<u>\$ 65,794</u>	<u>46,671</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Three month period ended March 31, 2017 and 2016

(unaudited)

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Operating revenues received	\$ 62,698	45,622
Paid to suppliers:		
General and administrative fees	(2,794)	—
Net cash provided by operating activities	<u>59,904</u>	<u>45,622</u>
Cash flows from investing activities:		
Earnings received	122	15
Net cash provided by investing activities	<u>122</u>	<u>15</u>
Net increase in restricted cash and cash equivalents	60,026	45,637
Restricted cash and cash equivalents, beginning of year	88,572	33,518
Restricted cash and cash equivalents, end of period	<u>\$ 148,598</u>	<u>79,155</u>

Reconciliation of operating income to net restricted cash provided by operating activities:

Operating income	\$ 40,917	49,897
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	19,894	15,672
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	(1,878)	548
Accounts receivable	971	(20,495)
Net restricted cash provided by operating activities	<u>\$ 59,904</u>	<u>45,622</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Three Month Period ended March 31, 2017 Compared to 2016

The UDSA results for the first quarter of 2017 showed a decrease of \$16 million in the change in net position compared to the first quarter 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 given year, which may differ from the accrued revenues and expenses recognized.

Operating revenue decreased \$5 million compared to 2016 due primarily to decrease in sales and lower unbilled revenue.

Operating expenses increased \$4 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.

Interest charges increased \$8 million compared to 2016 due to higher outstanding debt balances resulting from 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.