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Presale:

Utility Debt Securitization Authority (Series 2013T And 2013TE)

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This presale report is based on information as of Dec. 4, 2013. 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 Dec. 4, 2013

Series	Preliminary rating(i)	Tax status	Preliminary amount (mil. $)
2013-TE	AAA (sf)	Tax-exempt	1,600.540
2013-T	AAA (sf)	Taxable	481.719

(i)The ratings are preliminary and subject to change at any time.

Preliminary Tranching

Class(i)	Tax status	Preliminary amount ($)	Expected final maturity	Expected no. of payments	Legal final maturity
TE-1	Tax-exempt	90,000,000	12/15/2014	1	12/15/2016
TE-2	Tax-exempt	15,000,000	12/15/2015	1	12/15/2017
TE-3	Tax-exempt	30,000,000	6/15/2016	1	6/15/2018
TE-4	Tax-exempt	30,000,000	12/15/2016	1	12/15/2018
T	Taxable	481,719,000	12/15/2023	31	12/15/2025
TE-5	Tax-exempt	1,795,000	12/15/2023	1	12/15/2025
TE-6	Tax-exempt	14,690,000	6/15/2024	1	6/15/2026
TE-7	Tax-exempt	15,060,000	12/15/2024	1	12/15/2026
TE-8	Tax-exempt	30,265,000	6/15/2025	1	6/15/2027
TE-9	Tax-exempt	31,020,000	12/15/2025	1	12/15/2027
TE-10	Tax-exempt	38,505,000	6/15/2026	1	6/15/2028
TE-11	Tax-exempt	39,470,000	12/15/2026	1	12/15/2028
TE-12	Tax-exempt	94,550,000	6/15/2027	1	6/15/2029
TE-13	Tax-exempt	96,910,000	12/15/2027	1	12/15/2029
TE-14	Tax-exempt	90,745,000	6/15/2028	1	6/15/2030
TE-15	Tax-exempt	93,015,000	12/15/2028	1	12/15/2030
TE-16	Tax-exempt	92,320,000	6/15/2029	1	6/15/2031
TE-17	Tax-exempt	94,630,000	12/15/2029	1	12/15/2031
TE-18	Tax-exempt	36,195,000	6/15/2030	1	6/15/2032
TE-19	Tax-exempt	37,100,000	12/15/2030	1	12/15/2032
TE-20	Tax-exempt	27,370,000	6/15/2031	1	6/15/2033
TE-21	Tax-exempt	28,055,000	12/15/2031	1	12/15/2033

Preliminary Tranching (cont.)					
TE-22	Tax-exempt	22,440,000	6/15/2032	1	6/15/2034
TE-23	Tax-exempt	23,000,000	12/15/2032	1	12/15/2034
TE-24	Tax-exempt	22,075,000	6/15/2033	1	6/15/2035
TE-25	Tax-exempt	22,625,000	12/15/2033	1	12/15/2035
TE-26	Tax-exempt	489,795,000	12/15/2039	67	12/15/2041

(i)Series 2013-T corresponds to the class that is taxable and series 2013-TE corresponds to the classes that are tax-exempt.

Profile	
Expected closing date	Dec. 17, 2013.
Collateral	Restructuring property.
Issuer	Utility Debt Securitization Authority.
Servicer	Long Island Lighting Co.
Indenture trustee	The Bank of New York Mellon.
Payment dates	Payments will be made semiannually, starting December 2014.

Rationale

The preliminary ratings assigned to Utility Debt Securitization Authority's (the issuer's) restructuring bonds series 2013T and 2013TE are based on the trust's structure and the issuer's irrevocable right to impose, charge, and collect non-bypassable 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 non-bypassable charges are adjusted periodically to ensure sufficient collections, debt service costs, ongoing financing costs, and updated assumptions to various factors including energy usage and charge-off rates.

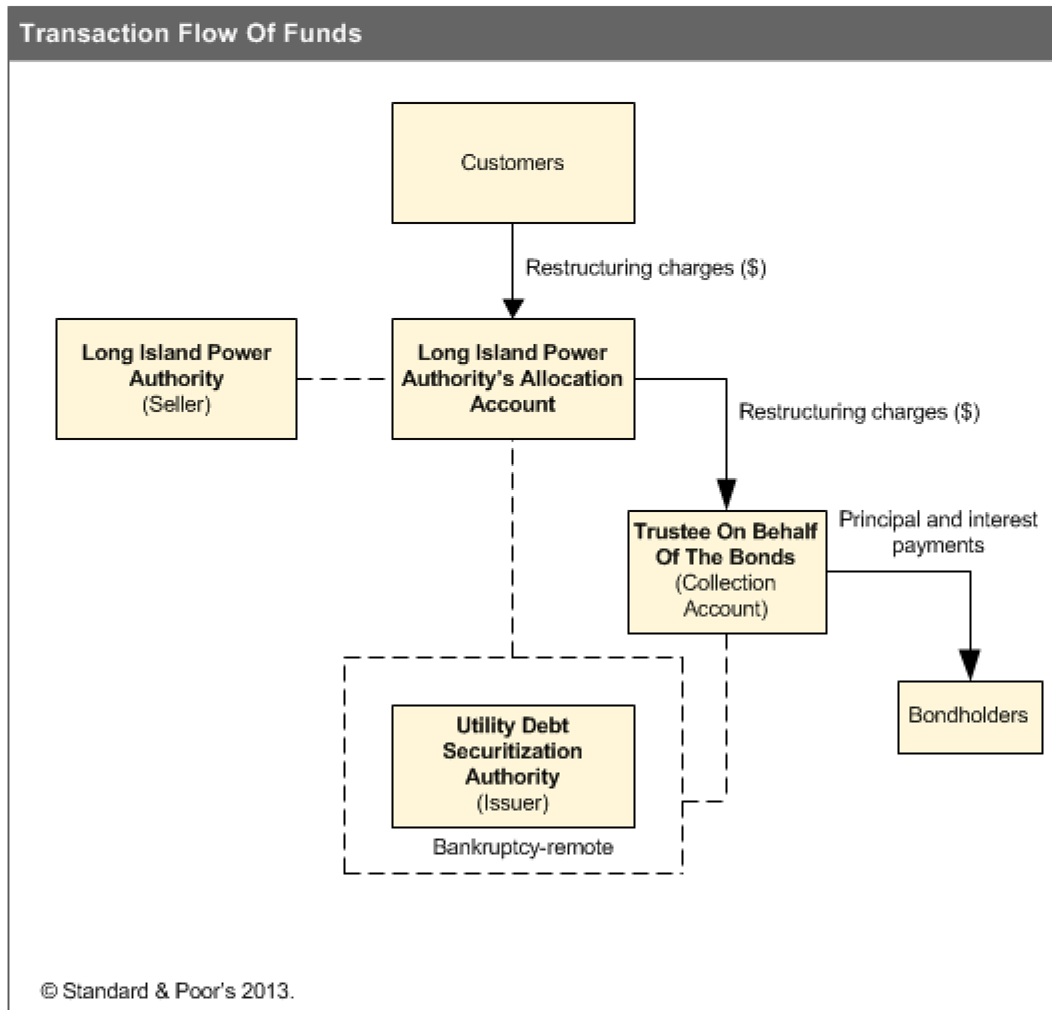
The issuer is a special-purpose corporate municipal instrumentality, body corporate and politic, political subdivision, and New York public benefit corporation created by the LIPA Reform Act's securitization law (part B of chapter 173 of New York State laws). The issuer has no commercial operations and 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 activity incidental thereto.

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 the time between each tranche's expected and legal final maturity dates, which we included 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 the flow of funds for the transaction.



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 annual true-ups (after the first 12 months) if there are not sufficient collections to make the anticipated scheduled payments or if the servicers forecast that the future collections will be substantially different than initial forecasted. True-ups may occur twice a year and 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 may 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 their agents to continue to service consistent with their current servicing practices and to not impair the restructuring charges. Additionally, 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 consumptions and the default of the top 10 costumers near the end of the transaction, the deal still pays in full before the final maturity date of each series of bonds.
- The effect of consumption volatility is mitigated by the true-up and the ability to draw from the reserve subaccount, which is initially funded with 0.50% of the bond principal amount.
- The total amount of the restructuring charges on the typical retail customer's electric bill, initially and in our stress scenarios, is not sufficient for us to consider a "rate payer revolt" situation (i.e., users 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 should the servicer be replaced.
- The restructuring charges are not subject to the lean that secures existing secured indebtedness of the Authority.
- We added two additional stress scenarios, discussed in the cash flow analyses section, to test the liquidity support in years when scheduled principal amortization is light.

Sector Outlook

Historically and in the past few years, some of the key factors for investors' interest in stranded costs securitizations are local economic conditions as well as the utility's ability to generate a constructive regulatory outcome. In New York, as is the case recently in a number of states, securitization continues to be viewed as a tool for utilities to recoup costs efficiently, given recently passed legislation. This transaction is the first time LIPA has used securitization to recover phase-in costs under the LIPA reformed 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 indebtedness. The bond issuance and the retirement of some of the Authority's debt are 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. Under the current law, the bonds are the only bonds that the issuer may issue secured by the restructuring property.

The Servicer And Customer Base

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 customer by class as of year-end 2012).

Table 1

The Average Number Of Metered Customer By Class

(As of year-end 2012)

Class	Avg. no. of metered customers
Residential	997,940
Commercial	115,128
Street lighting	5,356
Other public authorities	131

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

Table 2

Total Actual Versus Forecasted Electric Consumption (In Megawatt Hours)

Year	Actual	Forecast	Variance (%)
2010	20,375,740	19,756,120	3.14
2011	20,156,782	19,831,948	1.64
2012	19,953,617	20,614,152	(3.20)

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 the legal final maturity date of each series.

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 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 servicers' 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 defaultor 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 Priority

The collected amounts are payable in the order of priority outlined in the table 3.

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Table 3

Payment Waterfall	
Priority	**Payment(i)**
1	All fees, costs, expenses (including legal fees and expenses) not exceeding $800,000 in indemnities in each calendar year
2	The servicing fee of 0.05% of the bonds' aggregate initial principal amount in each calendar year (or up to 0.60% for a successor servicer not affiliated with LIPA).
3	Administration fee 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 ongoing financing costs 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 to the extent they exceed $800,000 in each calendar year.
9	All unpaid servicing fees from previous payment dates, to the extent that the servicing fees exceed 0.60% for a successor servicer not affiliated with LIPA.
10	To the reserve subaccount the amount, if any, by which the required reserve level exceeds the amount in the reserve subaccount as of the payment date.
11	The balance, if any, to the excess funds subaccount for distribution on subsequent payment dates.

LIPA--Long Island Lighting Co.

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 semi-annually based on stressed electric consumption. We increased annual charge-offs by 5x the highest actual annual charge-off percentage experienced by the seller. 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 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 other than government. This stress simulates an annual servicer default and replacement where parts of the collections are lost.
- Since 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 expected final maturity of the bonds.

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 other than government. 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 other than government. 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 other than government. 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.

Scenarios 2 and 4 were 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. In years when the scheduled principal amortization is light, such as in 2015, the transaction is more vulnerable to a liquidity shock. Scenario 2, with the onset of the stress delayed until the beginning of 2015, specifically tests the transaction's liquidity strength in 2015, without the benefit of any additional principal amortization carried over from the previous year if the stress started earlier.

Similarly, by adding scenario 4, which complements scenario 3, we now can review the liquidity strength in each year of the transaction's life when it will be hit with the 'AAA' stress, in each case preceded by a year in which there is an over-collection.

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, Standard & Poor's will review the legal matters that it believes are relevant to its analysis, as outlined in its criteria.

Related Criteria And Research

Related Criteria

- Securitizing Stranded Costs, Jan. 18, 2001

Related Research

- The Recession Hasn't Been Hard On 'Ratepayer Obligation Charge' Bonds, July 8, 2009
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

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