

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

Quarterly Unaudited Financial Report

For the six-month period ended June 30, 2022

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UTILITY DEBT SECURITIZATION
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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”), allowing for the retirement of certain outstanding indebtedness of the Long Island Power Authority (LIPA) 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 LIPA customer bills.

The 2013 Securitization Law permitted LIPA’s Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA issued Restructuring Bonds in an amount not to exceed \$4.5 billion. LIPA’s Board adopted Financing Order No. 1 on October 3, 2013, Financing Orders No. 2, No. 3 and No. 4 on June 26, 2015, and Financing Order No. 5 on September 29, 2017, each authorizing the UDSA to issue Restructuring Bonds. All such financing orders are substantively the same. Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. The proceeds of the UDSA restructuring bonds refunded certain LIPA bonds and generated total net present value debt service savings of approximately \$492 million for LIPA’s customers.

On August 2, 2021, changes to the Securitization Law were authorized to permit the issuance of additional securitized bonds for refinancing and to fund LIPA transmission and distribution system resiliency investments. Funding from UDSA bonds provides a lower cost to customers than issuing LIPA bonds for the same purpose. With these legislative changes the UDSA may issue up to \$8.0 billion of securitized bonds (inclusive of the bonds already issued).

On May 18, 2022, LIPA’s Board adopted additional financing orders No. 6, No. 7, No. 8 and No. 9. On August 2, 2022, the UDSA’s Board of Trustees approved the issuance of Series 2022 bonds in an amount not to exceed \$1.3 billion pursuant to financing order No. 6 for the purpose of refinancing certain debt of the LIPA and UDSA and financing resiliency investments.

Overview of the Financial Statements

The annual financial report for the Utility Debt Securitization Authority (UDSA) includes management’s discussion and analysis and the Basic Financial Statements. The Basic Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses, and Changes in Net Position report all of UDSA’s revenues and expenses for the periods shown.

The Statements of Cash Flows report the cash provided and used by Operating activities, as well as other cash sources, such as investment income, and other cash uses such as payments for debt service.

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Management's discussion and analysis of the financial performance of UDSA provides an overview of the six-month period ended June 30, 2022 compared to 2021. 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.

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).

Contacting the Utility Debt Securitization Authority

This financial report is designed to provide 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 any 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.

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position

June 30, 2022 and December 31, 2021

(Amounts in thousands)

	2022	2021
	(unaudited)	(audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 91,641	111,694
Accounts receivable (net of uncollectible accounts of \$60 and \$75, respectively)	58,963	53,946
Prepaid assets	126	277
Total current assets	<u>150,730</u>	<u>165,917</u>
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	3,819,620	3,931,161
Regulatory asset – unamortized debt issuance costs	14,744	15,704
Total noncurrent assets	<u>3,834,364</u>	<u>3,946,865</u>
Total assets	<u>\$ 3,985,094</u>	<u>4,112,782</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 204,285	177,511
Accrued interest	7,417	7,586
Accrued expenses	1,099	1,028
Total current liabilities	<u>212,801</u>	<u>186,125</u>
Noncurrent liabilities:		
Long-term debt	3,411,330	3,525,845
Unamortized premium of long-term debt	291,674	313,174
Total noncurrent liabilities	<u>3,703,004</u>	<u>3,839,019</u>
Total Liabilities	<u>3,915,805</u>	<u>4,025,144</u>
Net position – restricted	69,288	87,638
Total liabilities and net position	<u>\$ 3,985,094</u>	<u>4,112,782</u>

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Six-month period ended June 30, 2022 and 2021

(unaudited)

(Amounts in thousands)

	<u>2022</u>	<u>2021</u>
Operating revenue (net of uncollectible expense)	\$ 165,132	169,234
Amortization of restructuring property	111,541	110,481
Servicing, administrative and other fees	1,598	1,604
Total operating expenses	113,139	112,085
Operating income	51,993	57,149
Other income	190	20
	52,184	57,169
Interest charges and (credits):		
Interest on debt	90,864	94,790
Other interest	208	65
Other interest amortizations	(20,540)	(21,951)
Total interest charges and (credits), net	70,533	72,904
Change in net position	(18,350)	(15,735)
Net position, beginning of year	87,638	115,821
Net position, end of period	\$ 69,288	100,086

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Six-month period ended June 30, 2022 and 2021

(unaudited)

(Amounts in thousands)

	2022	2021
Cash flows from operating activities:		
Operating revenues received	\$ 160,115	168,537
General and administrative expenditures	(1,375)	(1,472)
Net cash provided by operating activities	158,740	167,065
Cash flows from investing activities:		
Earnings received	190	20
Net cash provided by investing activities	190	20
Cash flows from financing activities:		
Interest paid	(91,034)	(94,951)
Redemption of long-term debt	(87,741)	(88,743)
Bond administrative costs	(208)	(65)
Net cash used in financing activities	(178,983)	(183,759)
Net decrease in restricted cash and cash equivalents	(20,053)	(16,674)
Restricted cash and cash equivalents, beginning of year	111,694	128,833
Restricted cash and cash equivalents, end of period	\$ 91,641	112,159
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 51,993	57,149
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	111,541	110,481
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	222	131
Accounts receivable	(5,017)	(696)
Net restricted cash provided by operating activities	\$ 158,740	167,065

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(Amounts in thousands, unless otherwise stated)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Six-Month Period ended June 30, 2022 Compared to 2021

The UDSA results for the six months ended June 30, 2022 showed a decrease of \$3 million in the change in net position compared to the first six months of 2021. 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 differs from the accrued revenue and expenses recognized.

Operating revenues

Operating revenue decreased \$4 million compared to 2021 due primarily to lower sales in 2022.

Operating expenses

Operating expenses increased \$1 million compared to 2021 primarily due to increases in the amortization of the restructuring property which the UDSA recognizes on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds.

Nonoperating revenues and expenses

Interest expense decreased \$2 million compared to 2021 due to lower debt outstanding.