

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, 2023

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Table of Contents

	Page
Introduction	1-3
Basic Financial Statements (Unaudited)	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Management's Discussion and Analysis (Unaudited)	7-8

UTILITY DEBT SECURITIZATION AUTHORITY
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Introduction

Overview of the Financial Statements

The Utility Debt Securitization Authority (UDSA) publishes interim financial results on a quarterly basis with a fiscal year ending December 31. The interim Basic Financial Statements and related Management's Discussion and Analysis do not include all the information and notes required under Generally Accepted Accounting Principles (GAAP) for annual consolidated financial statements. Therefore, the Management's Discussion and Analysis of UDSA's nine-month period ended September 30, 2023 compared to 2022 should be read in conjunction with the annual audited consolidated financial statements, which may be found on UDSA's website at www.lipower.org/UDSA.

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 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.

The UDSA's basic financial statements are prepared on an accrual basis in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The UDSA is considered a blended component unit of the Long Island Power Authority (LIPA). The assets, liabilities, and results of operations are blended with the operations of LIPA for financial reporting purposes in LIPA's Basic Financial Statements.

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Nature of Operations

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, and then by Chapter 369 of the Laws of New York, 2021, the "Securitization Law"), allowing for the retirement of certain outstanding indebtedness of LIPA through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Restructuring Bonds are to be repaid by an irrevocable, non-bypassable restructuring charge on all LIPA customer bills.

The 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.

On August 2, 2021, changes to the Securitization Law were authorized to permit the issuance of additional securitized bonds for refinancing LIPA and UDSA bonds, 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 an initial par amount of 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. On September 29, 2022, UDSA issued \$841 million Series 2022 Restructuring Bonds and \$95 million Series 2022 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus \$91 million of the premium received, refunded \$852 million of LIPA and UDSA debt and funded \$100 million of LIPA resiliency investments. The 2022 UDSA Restructuring Bonds generated total net present value debt service savings of \$42 million for LIPA's customers.

On March 28, 2023, the UDSA's Board of Trustees approved the issuance of Series 2023 bonds in an amount not to exceed \$2 billion pursuant to Financing Order No. 7. UDSA priced \$833 million Series 2023 Restructuring Bonds on November 8, 2023. The Series 2023 Restructuring Bonds are scheduled to be issued on December 15, 2023. Series 2023 Bonds will refund the remaining 2013 UDSA Restructuring Bonds as of December 15, 2023, producing an additional \$45 million in net present value savings. \$136 million of the 2023 Restructuring Bonds (Green Bonds) will fund LIPA resiliency investments.

Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing.

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As of September 30, 2023, a total of \$5.4 billion of UDSA Restructuring Bonds have been issued resulting in \$2.6 billion in remaining statutory capacity. The UDSA's Financing Orders are summarized below:

Bond Series	Issuance Date	Amount Issued	Net Present Value Savings	Average Life (Years)	All-in Cost
Series 2013	December 18, 2013	\$ 2,022,324	\$ 131,609	14.2	4.22%
Series 2015	October 27, 2015	1,002,115	127,978	15.6	3.40%
Series 2016A	April 7, 2016	636,770	115,238	11.8	2.70%
Series 2016B	September 8, 2016	469,320	71,647	6.9	2.01%
Series 2017	November 21, 2017	369,465	45,387	16.7	3.45%
Series 2022	September 29, 2022	935,655	42,080	9.3	3.52%
Total		\$ 5,435,649	\$ 533,939		

Bond Ratings

UDSA's credit ratings by Moody's Investors Service (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch) are listed below.

Bond Series	Moody's	S&P	Fitch
Series 2013	Aaa (sf)	AAA (sf)	AAAsf
Series 2015	Aaa (sf)	AAA (sf)	AAAsf
Series 2016A	Aaa (sf)	AAA (sf)	AAAsf
Series 2016B	Aaa (sf)	AAA (sf)	AAAsf
Series 2017	Aaa (sf)	AAA (sf)	AAAsf
Series 2022	Aaa (sf)	AAA (sf)	Not applied for

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. For more 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

September 30, 2023 and December 31, 2022

(Amounts in thousands)

	2023	2022
	(unaudited)	(audited)
Assets and Deferred Outflow of Resources		
Current assets:		
Restricted cash and cash equivalents	\$ 232,220	153,150
Accounts receivable, net of allowance for uncollectible accounts of \$274 and \$101, respectively	80,666	69,743
Prepaid expenses	58	318
Total current assets	312,944	223,211
Noncurrent assets:		
Restructuring property, net of accumulated amortization	3,787,396	4,013,451
Regulatory asset – unamortized debt issuance costs	17,054	18,807
Total noncurrent assets	3,804,450	4,032,258
Total assets	4,117,394	4,255,469
Deferred outflow of resources:		
Deferred defeasance costs on debt refunding	8,930	10,059
Total assets and deferred outflows of resources	\$ 4,126,324	4,265,528
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 242,250	264,660
Accrued interest	52,962	7,812
Accrued expenses	1,319	1,521
Total current liabilities	296,531	273,993
Noncurrent liabilities:		
Long-term debt, net	3,429,130	3,537,550
Unamortized premium of long-term debt	300,077	335,365
Total noncurrent liabilities	3,729,207	3,872,915
Total liabilities	4,025,738	4,146,908
Net position – restricted	100,586	118,620
Total liabilities and net position	\$ 4,126,324	4,265,528

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position

Nine-month period ended September 30, 2023 and 2022

(unaudited)

(Amounts in thousands)

	<u>2023</u>	<u>2022</u>
Operating revenue, net of uncollectible accounts expense	\$ 310,411	284,269
Operating expenses:		
Amortization of restructuring property	226,055	167,312
Servicing, administrative and other fees	<u>2,992</u>	<u>2,411</u>
Total operating expenses	229,047	169,723
Operating income	<u>81,364</u>	<u>114,546</u>
Nonoperating revenue and expenses:		
Interest income	<u>7,416</u>	<u>657</u>
	88,780	115,203
Interest charges and (credits):		
Interest on debt	138,897	135,404
Other interest	324	288
Other interest amortizations	<u>(32,407)</u>	<u>(30,343)</u>
Total non-operating expenses, net	106,814	105,349
Change in net position	<u>(18,034)</u>	<u>9,854</u>
Net position, beginning of year	<u>118,620</u>	<u>87,638</u>
Net position, end of period	<u>\$ 100,586</u>	<u>97,492</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Nine-month period ended September 30, 2023 and 2022

(unaudited)

(Amounts in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Operating revenues received	\$ 299,488	264,048
Servicing, administrative and other fees	(2,932)	(1,295)
Net cash provided by operating activities	<u>296,556</u>	<u>262,753</u>
Cash flows from investing activities:		
Interest income	7,416	657
Net cash provided by investing activities	<u>7,416</u>	<u>657</u>
Cash flows from financing activities:		
Interest paid	(93,748)	(91,034)
Redemption of long-term debt	(130,830)	(87,741)
Proceeds from the issuance of long-term debt	—	1,046,780
Early defeasance on UDSA long-term-debt	—	(702,279)
Payments to bond escrow agent to refinance LIPA bonds	—	(217,804)
Payments to LIPA System Resiliency Fund	—	(100,000)
Debt issuance costs	—	(7,396)
Other interest costs	(324)	(288)
Net cash used in financing activities	<u>(224,902)</u>	<u>(159,762)</u>
Net increase in cash and cash equivalents	79,070	103,648
Restricted cash and cash equivalents, beginning of year	153,150	111,694
Restricted cash and cash equivalents, end of period	<u>\$ 232,220</u>	<u>215,342</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 81,364	114,546
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of restructuring property	226,055	167,312
Changes in operating assets and liabilities:		
Prepaid expenses and accrued expenses	60	1,554
Accounts receivable	(10,923)	(20,659)
Net cash provided by operating activities	<u>\$ 296,556</u>	<u>262,753</u>

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Management's Discussion and Analysis
(Unaudited)

Nine-Month Period ended September 30, 2023 Compared to 2022

The UDSA results for the nine months ended September 30, 2023, showed a decrease of \$28 million in the change in net position compared to the first nine months of 2022. The net position and changes in net position reflect the timing differences between the accrual-based accounting required under GAAP 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 accrued revenues and expenses.

Operating revenues

Operating revenues increased \$26 million compared to 2023 due to higher restructuring charges primarily as a result of Financing Order No. 6 increasing revenue by \$38 million. This was partially offset by lower sales compared to 2022, impacting revenue by \$12 million.

Operating expenses

Operating expenses increased \$59 million compared to 2022 primarily due to an increase in the amortization of the restructuring property resulting from higher debt service principal payments through September 2023 compared to 2022. 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.

Nonoperating revenues and expenses

Interest expense increased \$3 million compared to 2022 due to higher debt outstanding. Interest income increased \$7 million due to higher interest rates combined with higher cash balances in 2023 attributable to collections related to Financing Order No. 6.

Long-Term Debt

The Financing Orders adopted by LIPA's Board authorized the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from LIPA. Each Restructuring Property is secured only by their respective Restructuring Bonds. In each restructuring transaction, LIPA used the net proceeds from the sale of the Restructuring Property to refund debt and other obligations of LIPA or to fund resiliency investments, producing net present value savings to LIPA's utility customers.

Interest payments on all the Restructuring Bonds are paid semi-annually every June 15th and December 15th. Restructuring Charges are set to collect amounts sufficient to pay the principal of, and interest on, the bonds on a timely basis and any ongoing financing costs.

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The UDSA's long-term debt as of September 30, 2023, consisted of the following:

(Amounts in thousands)

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities</u>	<u>Repaid/ Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
UDSA restructuring bonds:							
Series 2013T	72,660	—	36,335	—	36,325	2023	3.44
Series 2013TE	715,100	—	—	—	715,100	2023-2039	5.00
Series 2015	967,710	—	6,150	—	961,560	2023-2035	3.00-5.00
Series 2016A	636,770	—	40,970	—	595,800	2023-2033	5.00
Series 2016B	153,695	—	12,930	—	140,765	2023-2033	4.00-5.00
Series 2017	320,620	—	18,130	—	302,490	2023-2039	5.00
Series 2022T	53,585	—	10,360	—	43,225	2023-2037	4.42-4.95
Series 2022TE-1	787,290	—	5,955	—	781,335	2023-2037	5.00
Series 2022TE-2	94,780	—	—	—	94,780	2038-2050	5.00
Subtotal	<u>3,802,210</u>	<u>—</u>	<u>130,830</u>	<u>—</u>	<u>3,671,380</u>		
Less: Current maturities	<u>(264,660)</u>				<u>(242,250)</u>		
Total Long-term debt	<u>\$ 3,537,550</u>				<u>3,429,130</u>		

The annual debt service requirements for the UDSA's bonds are as follows:

	<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service Requirements</u>
2023	\$	264,660	184,539	449,199
2024		217,265	172,810	390,075
2025		229,810	161,954	391,764
2026		231,165	150,786	381,951
2027		221,465	139,845	361,310
2028-2032		1,269,660	521,327	1,790,987
2033-2037		855,655	239,142	1,094,797
2038-2042		447,235	48,596	495,831
2043-2047		37,745	12,269	50,014
2048-2050		27,550	2,460	30,010
	\$	<u>3,802,210</u>	<u>1,633,728</u>	<u>5,435,938</u>

The UDSA has approximately \$2.6 billion of Restructuring Bonds that become callable from 2023 through 2032.