

Version 3

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A proposal to create Legislation.

Ontario's Fair Hydro Plan Act, 2017, if enacted

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EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL
TO ANY FINAL BILL PRIOR TO INTRODUCTION.

[Insert explanatory note.]

[Notes re this draft:

- all numbering of provisions may need to be re-done
- will need to check all definitions to ensure (1) that they are needed; and (2) that they work properly wherever the term is used in the Bill.
- additional consequential amendments likely required still
- overall organization of provisions still TBC (for now just trying to get all of the elements drafted and will reconsider architecture later)
- need to check consistency of various phrases (e.g. *during/for/in respect of* reference period; *owner of RA/IA* vs. *RA/IA owner*; etc.)]

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.¹

The Government of Ontario has established a regulatory framework related to the generation and sale of electricity, which has promoted and continues to promote significant investment to enable phasing out of coal fired generation, modernizing sites and facilities in the Province for the generation of electrical energy and the production therefrom,² and conservation and demand management.

The Government of Ontario is committed to ensuring that the costs of these investments, and the raising of money to fund the investments,³ are allocated fairly among present and future generations of consumers.

Therefore, Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

¹ Note: please see the preamble of the *Green Energy Act, 2009*.

² Note: please see clause 92A (4) (b) of the Constitution, 1867: “des emplacements et des installations de la province destinés à la production d'énergie électrique, ainsi que de cette production meme”.

³ Note: please see opening flush of s. 92A (4) of the Constitution Act, 1867

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PART I GENERAL

Interpretation

Definitions

1xx. (1) In this Act,

“Board” means the Ontario Energy Board; (“French”)

“clean energy adjustment” means the amount determined under section 10xx; (“French”)
[Note - will need to check throughout the draft that references to CEA are clear as to whether it’s the total CEA in respect of a reference period vs. the portion payable by a specified consumer.]

“clean energy benefits” means, in respect of a reference period, the value of the benefits determined to be derived by the specified consumers during the reference period as a result of the clean energy initiative, including as a result of past, present and expected future incurrences of clean energy costs; (“French”)

“clean energy costs” means, in respect of a reference period, the value of the costs allocated to specified consumers during the reference period as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

- (a) the estimated costs to be incurred by the IESO under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts for,
 - (i) renewable energy generation or capacity,
 - (ii) conservation and demand management, including storage,
 - (iii) energy efficiency,
 - (iv) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed, or
 - (v) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(b) such other estimated costs as may be prescribed; (“French”)

“clean energy initiative” means the policies of the Government of Ontario related to,

- (a) fostering the growth of and investment in clean and renewable energy sources and technologies,
- (b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies, and
- (c) promoting conservation and demand management; (“French”)

“electricity vendor”⁴ means the IESO, a licensed distributor, a licensed retailer or such other person as may be prescribed; (“French”)

“fair adjustment” means the determination of the rate payable for electricity in accordance with Part II; (“French”)

“Financial Services Manager” means Ontario Power Generation Inc. [or such other person or entity as may be appointed as the Financial Services Manager by the Minister under section **]; (“French”)

“Financing Plan” means the plan prepared under section X, as amended from time to time in accordance with this Act; (“French”)

“funding obligation” means a payment obligation incurred by or on behalf of the regulatory asset owner or an investment asset owner under section x; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO funding shortfall” means, in respect of a reference period, the amount determined under section 20xx for the reference period; (“French”)

“investment asset” means the investment asset created as described in section 22xx; (“French”)

“investment asset owner” means a financing entity that acquires an investment interest in the investment asset; (“French”)

⁴ Note - this is similar to the definition of “electricity vendor” in the Ontario Rebate for Electricity Consumers Act, 2016

“investment interest” means an ownership interest in the investment asset, which entitles an investment asset owner to the rights and benefits specified in the agreement under which the ownership interest is transferred;

“invoice amount” means the amount, determined in accordance with subsections (2.1) and (2.2) and the regulations, that is payable by a specified consumer for the provision of electricity in Ontario during a period of time specified on an invoice issued by an electricity vendor; (“French”)

“licensed distributor” means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system; (“French”)

“licensed retailer” means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; (“French”)

“Minister” means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; (“ministre”)

“prescribed” means prescribed by the regulations; (“prescrit”)

“reference period” means,

- (a) the period beginning on May 1, 2017 and ending on October 31, 2017,
- (b) every six-month period following the period mentioned in clause (a) or such shorter period as may be set out in the Fair Allocation Plan; (“French”)

“refinancing” means a repayment or repurchase of a funding obligation for cancellation by or on behalf of an investment asset owner by applying the net proceeds obtained by the owner incurring one or more other funding obligations; (“French”)

“regulation” means a regulation made under this Act; (“règlement”)

“regulatory asset” means the right established under section X to recover the IESO funding shortfall; (“French”)

“representative consumer” means a consumer who meets the criteria set out in subsection (3); (“French”)

“specified consumer” means,

- (a) a person who has an account with an electricity vendor for the supply of electricity, receives an invoice in respect of the account and meets the criteria set out in subsection (2); or
- (b) such other person as may be prescribed; (“French”)

“Toronto Hydro” means Toronto Hydro-Electric System Limited; (“French”)

“transfer” means an assignment, conveyance, disposition or sale; (“French”)

Specified consumers

(2) For the purposes of clause (a) of the definition of “specified consumer” in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.
2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.
3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or the has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.
4. The person’s account with the electricity vendor relates to,
 - i. a dwelling,
 - ii. a property within the meaning of the *Condominium Act, 1998*,
 - iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or
 - iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.
5. The person satisfies such criteria as may be prescribed.

Invoice amount

(2.1) Subject to subsection (2.2) and the regulations, the invoice amount for a specified consumer includes the following amounts:

1. In circumstances where the electricity is provided by a licensed distributor or a licensed retailer, the following:
 - i. The commodity price of the electricity used during the invoice period.
 - ii. The rates and charges set out in the applicable rate order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998*.
 - iii. Any adjustment on the invoice required under section 25.33 of the *Electricity Act, 1998*.
 - iv. The amount of any harmonized sales tax payable [by the consumer?] under Part IX of the *Excise Tax Act* (Canada);
 - v. Any other amounts as may be prescribed.
2. In circumstances where the electricity is provided by the IESO, such amounts as may be prescribed. (“French”)

Same, exclusions

(2.2) Except as otherwise prescribed by the regulations, the invoice amount does not include any of the following amounts:

1. The balance of any amounts carried forward from previous invoices.
2. Penalties or interest.
3. Charges that do not relate to the use of electricity.
4. Any of the following charges that may be set out in an order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998*:
 - i. A fixed monthly service charge payable by a generation facility within the meaning of section 56 of the *Ontario Energy Board Act, 1998* and classified as “microFIT”.
 - ii. A charge labelled as a “specific service charge” or “retail service charge”.

iii. A rate rider.

5. Any other prescribed amounts.

Representative consumer

(3) For the purposes of the definition of “representative consumer” in subsection (1), the consumer,

- (a) purchases electricity directly from Toronto Hydro;
- (b) has an account with Toronto Hydro that falls within a residential-rate classification as specified in a rate order made by the Board under section 78 of the *Ontario Energy Board Act, 1998*;
- (c) is invoiced by Toronto Hydro on a monthly basis;
- (d) is not invoiced by Toronto Hydro for electricity on an equal monthly payment plan or an equal billing plan; and
- (e) uses, on average, 750 kilowatt hours of electricity each month.

Transfer

(4) For greater certainty, a transfer of the regulatory asset or a portion of the regulatory asset includes any act of the IESO by which the IESO purports to dispose of its interest in the regulatory asset with the result of a named person becoming the owner of an investment interest.

Effect of invalidity, etc.⁵

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if some provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect a funding obligation that was incurred under this Act before the day that the provision was held to be invalid or ceased to be in effect.

Purpose

3xx. (1) The purposes of this Act are,⁶

⁵ Note: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

- (a) to ensure that clean energy costs are fairly allocated among specified consumers over time and that the process by which the Province raises money to fund the costs reflects the fair allocation; and
- (b) to recognize that clean energy benefits that have accrued and that will accrue over time will continue to benefit present and future electricity consumers in the Province.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) The Crown shall not do anything that would,

- (a) hinder, delay, impair or prejudice the charging, collection or remittance of the clean energy adjustment;
- (b) except as expressly permitted by this Act, reduce the amount of the clean energy adjustment or lower the priority of the clean energy adjustment over other debts; or
- (c) adversely affect an investment asset or a funding obligation.

Clarification with respect to regulations

(2) For greater certainty, the things prohibited under subsection (1) include the making or approving of a regulation under this Act.

Agreements for compensation

(3) The Minister may, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding financial commitments, financial arrangements, indemnities or similar transactions.

PART II FAIR ADJUSTMENT

⁶ Note: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

Fair adjustment, May 1, 2017 to April 30, 2018

Definition

6xx. (1) In this section,

“average baseline invoice amount” means the average monthly invoice amount that would be payable by a representative consumer under the average baseline rate; (“French”)

“average baseline rate” means the average rate that would be payable effective May 1, 2017 by the class of consumers prescribed by the regulations under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act, as determined by the Board by applying the method prescribed by the regulations under clause 79.16 (1) (b) of that Act; (“French”)

“sub-meter customer” means a person who is supplied electricity by a specified consumer, if an invoice for the electricity is issued to the person by the specified consumer, by an agent of the specified consumer or by a unit sub-meter provider providing unit sub-metering for the specified consumer; (“French”)

Rate determination

(2) Subject to subsection (3), [to more fairly measure and allocate the clean energy costs and clean energy benefits among present and future generations of specified consumers,] the rate for electricity payable by a specified consumer for the period beginning on May 1, 2017 and ending on April 30, 2018 is the average rate that would be payable by a representative consumer in order for the representative consumer to receive a monthly invoice amount that is 25 per cent less than the average baseline invoice amount.

Sub-meter customers

(3) A specified consumer who provides electricity to a sub-meter customer and any unit sub-meter provider who provides unit sub-metering for the specified consumer shall ensure that the rate payable by each sub-meter customer is the rate determined under subsection (2).

Determining rate

(4) The rate mentioned in subsection (2) shall be,

- (a) determined by the Board within seven business days after this section receives Royal Assent; and
- (b) effective as of the first day of the calendar month immediately following the determination.

Transition

(5) If, for technical or operational reasons, an electricity vendor, specified consumer or unit sub-meter provider is unable to adapt its invoices to comply with this section by the time it issues its first invoice for electricity consumed on or after May 1, 2017,

- (a) the electricity vendor, specified consumer or unit sub-meter provider shall adapt its invoices as soon as possible and, in any event, no later than [August 1, 2017]; and
- (b) the electricity vendor, specified consumer or unit sub-meter provider shall ensure that any specified consumer or sub-meter customer invoiced at a rate higher than the applicable rate receives the difference between the rate shown on their invoice and the applicable rate as a lump sum credit on the first invoice issued after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Fair adjustment, May 1, 2018 to April 30, 2022

7xx. The Lieutenant Governor in Council may, [to more fairly measure and allocate the clean energy costs and clean energy benefits among present and future generations of specified consumers,] make regulations prescribing the rate for electricity payable by specified consumers and sub-meter customers during the period beginning on May 1, 2018 and ending on April 30, 2022.

PART III CLEAN ENERGY ADJUSTMENT

Specified consumers to pay clean energy adjustment

8xx. (1) Upon receipt of an invoice that includes a clean energy adjustment, a specified consumer shall pay the clean energy adjustment to the electricity vendor, as agent of the investment asset owners, in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Same

- (2) For greater certainty, subsection (1) applies regardless of,
 - (a) whether the clean energy adjustment is inconsistent with the fair allocation calculation applicable at the time when the payment is due; and
 - (b) whether the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan.

Indebtedness of specified consumer

(4) An unpaid clean energy adjustment that is required to be paid by a specified consumer under this section constitutes indebtedness of the consumer to each investment asset owner in respect of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer under the invoice or otherwise.

Irrevocability of clean energy adjustment

9xx. (1) The amount of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness created by the adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that there is a calculation error by the electricity vendor.

Determination of clean energy adjustment

10xx. (1) The clean energy adjustment payable by all specified consumers in respect of a reference period shall be determined as follows:

1. Calculate the estimated finance amount for the reference period in accordance with Schedule 1 and such additional rules as may be prescribed.
2. Add the true up amount for the reference period, as determined in accordance with the prescribed method, to the estimated finance amount calculated under paragraph 1.

True up amount

(2) For the purposes of paragraph 2 of subsection (1), the Lieutenant Governor in Council may make regulations prescribing the method for determining the true up amount, having regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the estimated finance amount when it is due.
2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

- i. differences between amounts billed and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and
- ii. variations in billings due to variations in electricity consumption.

IESO to issue remittance notice to electricity vendors

11xx. (1) The IESO shall, in accordance with the regulations, issue a remittance notice to each electricity vendor for the electricity vendor's portion, as determined in accordance with the regulations, of the clean energy adjustment in respect of a reference period.

IESO to collect

(2) The IESO shall, as an agent of the investment asset owners, collect the clean energy adjustment from electricity vendors [in accordance with the monthly settlement process set out in the market rules made under section 32 of the *Electricity Act, 1998*].

Collection account

(3) All of the following amounts received by the IESO shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (5), be deposited promptly into an account established for the purposes of collecting those accounts:

- 1. Amounts described in subsection 12 (4).
- 2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 8 (1).

Same, held in trust

(4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (6), be held in trust for the investment asset owners or a secured party to whom a security interest in an investment interest is granted under this Act.

IESO to remit

(5) The IESO shall remit amounts received by it in respect of the clean energy adjustment to or for the benefit of the investment asset owners in accordance with the regulations.

Collection of outstanding amounts, regulatory asset

(6) If the total clean energy adjustment payable by specified consumers in respect of a reference period is less than the amount contemplated to be payable under the

applicable fair allocation calculation made by the Financial Services Manager under Part IV, the IESO may collect the difference from specified consumers.

Electricity vendor to invoice specified consumers

12xx. (1) The electricity vendor shall issue an invoice to each specified consumer for the consumer's amount of the clean energy adjustment in accordance with the regulations.

Electricity vendor to collect

(2) Each electricity vendor shall, as an agent of the IESO and the investment asset owners, collect the clean energy adjustment from specified consumers [in accordance with the monthly settlement process set out in the market rules made under section 32 of the *Electricity Act, 1998*].

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges for the same invoice period.

Held in trust

(4) All of the following amounts received by an electricity vendor shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (5), be held in trust for the investment asset owners or a secured party to whom a security interest in an investment interest is granted under this Act:

1. Payments received from or on behalf of specified consumers under subsection 8 (1).
2. Portions of payments received from or on behalf of specified consumers under subsection 8 (1) that are allocated to the clean energy adjustment under subsection (3).
3. Any proceeds arising from the exercise and enforcement of any rights and interests under or in respect of the investment asset.

Remittance to IESO

(5) Each electricity vendor other than the IESO shall remit amounts described in subsection (5) to the IESO for the benefit of the investment asset owners or secured parties in accordance with the regulations.

Regulations

(6) If an electricity vendor fails, in the manner described in the regulations, to comply with the requirements of this section, the electricity vendor shall take such steps as the regulations may prescribe.

PART IV IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. (1) [Note: To be elaborated.]

Termination

(2) The Minister may by written order terminate the appointment of an appointee as the Financial Services Manager if,

- (a) the Minister has advised the appointee that the Financing Plan is either inconsistent with or is being implemented in a manner that is inconsistent with the principles set out in section x;
- (b) the appointee has been afforded a reasonable opportunity to consider and address the inconsistency; and
- (c) the appointee is unwilling or unable to address the inconsistency to the satisfaction of the Minister.

Replacement

(3) Upon terminating an appointment, the Minister may, in accordance with the regulations, appoint a new person or entity as the Financial Services Manager.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment asset owner.

Same

(2) The administration of the investment asset may include the following:

- 1. Providing information, in accordance with the regulations, to the Board in respect of funding obligations and the determination of the clean energy adjustment in accordance with section XX.

2. Providing information to electricity vendors, including the IESO, in respect of obligations under Part III.
3. Such other matters as may be prescribed.

Review of costs

(3) The Board shall review the administrative costs of the Financial Services Manager in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Financial Services Manager to calculate fair allocation amount

15xx. (1) The Financial Services Manager shall calculate the fair allocation amount for the purposes of,

- (a) fairly measuring and allocating the estimated clean energy costs and estimated clean energy benefits among the specified consumers in respect of each reference period; and
- (b) aligning funding obligations that may be incurred during each reference period with the allocation of the estimated clean energy costs and estimated clean energy benefits across present and future generations of specified consumers.

Amount

(1.1) The fair allocation amount in respect of a reference period is the sum of the following amounts:

1. The amount, if any, by which the estimated [clean energy costs] [clean energy benefits] to be allocated to specified consumers in respect of the reference period exceeds the estimated amount of [the global adjustment] that would be borne by the specified consumers in respect of clean energy costs [in the absence of this Act].
2. An allocable portion of the value of any fair adjustment, determined in accordance with subsection (3).

Principles

(2) In calculating the fair allocation amount [or in developing the fair allocation calculation?], subject to subsection (3), the Financial Services Manager shall have regard to the following principles:

1. Clean energy costs allocated to the specified consumers in respect of a reference period should be allocated in proportion to the clean energy benefits attributed to the specified consumers in respect of the reference period.
2. The clean energy benefits attributed to the specified consumers in respect of a reference period should be determined based on **[Insert principles]**.
3. The fair allocation calculation should include reasonable assumptions regarding the following:
 - i. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.
 - ii. The expected number of specified consumers for each reference period.
 - iii. The expected electricity consumption rates for each reference period.

Allocation of fair adjustment

(3) If, before the Financial Services Manager has calculated the fair allocation amount in respect of a reference period, a fair adjustment has been made under Part II in respect of the reference period, the calculation shall include a portion of the value of the fair adjustment in the fair allocation calculation for each future reference period.

Amendments to the fair allocation calculation

(4) The Financial Services Manager may amend the fair allocation calculation from time to time, as the Financial Services Manager considers appropriate, having regard to the requirements of this Act.

Submission of fair allocation to Minister

(5) The Financial Services Manager shall provide to the Minister the fair allocation calculation and any amendments to the fair allocation calculation.

Effective date

(6) The fair allocation calculation or an amendment to the fair allocation calculation takes effect on the day that is 30 days after the fair allocation calculation or the amendment, as the case may be, is provided to the Minister in writing.

Publication

(7) The Minister shall ensure that the fair allocation calculation and any amendments to it are made available to the public in a manner that the Minister considers appropriate.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare and provide to the Minister a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred or potential transfers should be made for the purposes of this Act.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Any incurrence of a funding obligation should reasonably align the expected finance amount determined under Schedule 1 that would become due and payable during a reference period with the fair allocation amount determined for the reference period under this Part as of the time of the incurrence, in each case after reducing the fair allocation calculation by the amount of any fair adjustment for the reference period.
2. Incurrences and transfers should be implemented in a manner that, as the Financial Services Manager considers to be reasonable, is cost effective and reflects prevailing market terms and conditions.
3. Reasonable assumptions should be made regarding such matters as may be prescribed.

[Note for reference: List of items for consideration in regulation: (a) anticipated IESO funding shortfalls and related transfer amounts; (b) the maturities of funding obligations; (c) the availability of refinancings, redemption opportunities and liquidity terms and conditions in order to achieve the objective contemplated in section X(1)(a); (d) the availability of currency and interest rate hedging facilities for the purpose of mitigating any differences between the expected finance amounts becoming due and payable during a reference period and the fair allocation amount for the reference period; (d) the amount and potential variability of interest rates and related financing costs; (e) available capital markets in which funding obligations may be incurred.]

Amendments to approved plan

(3) The Financial Services Manager may amend the Financing Plan at any time, without the approval of the Minister, subject to the requirements set out in this section.

Limitation, first five year period

(4) In respect of each reference period from May 1, 2017 to April 30, 2022, no funding obligation shall be incurred that would become payable during the reference period and result in a clean energy adjustment for the reference period unless,

- (a) no fair adjustment has been made under Part II in respect of the reference period; or
- (b) if a fair adjustment has been made under Part II in respect of the reference period, the funding obligations incurred would not be payable during the reference period in an amount that exceeds the [difference between the fair allocation amount for the reference period and the amount of the fair adjustment for the reference period].

Confidentiality of plan

(4) The Financing Plan is deemed to be a record subject to section 17 of the *Freedom of Information and Protection of Privacy Act*.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall incur funding obligations and make transfers in material conformity with the applicable Financing Plan.

Same

(2) For greater certainty, section [paramountcy of funding obligations] applies despite the failure of the Financial Services Manager to comply with subsection (1).

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish one or more financing entities that may incur funding obligations and make transfers.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation.

Effect of amendment to Fair Allocation Plan

(4) No funding obligation incurred and no transfer made by the Financial Services Manager shall be affected by any inconsistency with the Financing Plan, including any inconsistency with the principles set out in section X.

PART V THE REGULATORY ASSET

Interpretation, portion of regulatory asset

18xx. If a transfer under this Part provides for the transfer of a portion of the regulatory asset, any references in this Part to the regulatory asset are deemed to be references to the portion of the regulatory asset transferred.

[Note: This is meant to assist with clarity in the subsequent provisions.]

Variance account

19xx. (1) The Board shall issue an accounting order to authorize the IESO to do the following:

1. Create a variance account for the purposes of this Act.
2. Record the IESO funding shortfall in the variance account from time to time.
3. Recover the IESO funding shortfall in accordance with section X and the regulations.

No hearing

(2) The order of the Board shall be made in writing and without holding a hearing.

No appeals, etc.

(3) No appeal lies from the order of the Board.

IESO funding shortfall

20xx. (1) The IESO shall determine the IESO funding shortfall for each month in the following manner:

1. Calculate the sum of all invoice amounts issued to specified consumers for the month if Part II of this Act did not apply.
2. Calculate the sum of all invoice amounts issued to specified consumers for the month.
3. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1, and make any other adjustments as may be prescribed.

Same

(2) To the extent that the IESO funding shortfall for any month is based on an estimate of the electricity used by specified consumers, the IESO shall record an

adjustment in the variance account in the following month to reflect the difference between the estimate and the electricity actually used by specified consumers.

Recording of IESO funding shortfall

(3) IESO shall record the IESO funding shortfall from time to time, including adjustments resulting from the exercise of the right of recovery under section 21 and any transfer under section 22, in the variance account.

Recording determinative

(4) A recording of the IESO funding shortfall in the variance account is determinative of the amount of IESO funding shortfall at the time of the recording.

Regulatory asset established

21xx. (1) The IESO has the right, exercisable in accordance with this Act and the regulations, to recover the IESO funding shortfall.

Same, restrictions

(2) The IESO's right to recover the IESO funding shortfall under subsection (1) is subject to the following:

1. The IESO shall not be entitled to collect the IESO funding shortfall from specified consumers before May 1, 2022.
2. The process by which the IESO may recover the IESO funding shortfall shall be established by the Board, having regard to the amount of the IESO funding shortfall from time to time and the [fair allocation calculation].
3. Such other restrictions as may be prescribed.

Transfer of regulatory asset

22xx. (1) The IESO may transfer all or a portion of the regulatory asset to any financing entity under the Financing Plan, which transfer creates the investment asset.

Same

- (2) Upon receipt of any payment in consideration for the transfer,
 - (a) the IESO shall record the payment as a reduction of the IESO funding shortfall in the variance account; and
 - (b) unless otherwise provided for in this Act, the IESO shall have no further right, title or interest in, or any obligations in respect of, the regulatory asset or in the investment asset created by the transfer.

Same

(3) Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest.

Validity of transfer

23xx. (1) A transfer of a regulatory asset under this Act is a valid and enforceable sale and absolute transfer to the investment asset owner of the regulatory asset, and the investment asset created by the transfer shall be immediately vested in the transferee.

Same

(2) Without limiting subsection (1), any transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of IESO's right to recover the IESO funding shortfall, and not merely as a security interest, and upon the absolute transfer the transferor shall retain no right, title or interest in the regulatory asset, including all rights to recover the IESO funding shortfall.

Deemed perfection, etc.

(3) At the time a transfer of a regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI THE INVESTMENT ASSET

Interpretation, investment asset

24xx. If a transfer under this Part provides for the transfer of an investment asset, any references in this Part to the investment interest are deemed to be references to the specific investment interest transferred.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests without duplication:

1. The right to impose, bill, invoice, collect and receive the clean energy adjustment from specified consumers, including the right to determine the amount of the clean energy adjustment in accordance with this Act.

2. The right to receive and collect all amounts in respect of the clean energy adjustment that are imposed, billed and invoiced under this Act, including any amounts that all amounts in respect of the clean energy adjustment that are held by electricity vendors or other prescribed parties.
3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.
4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge, bill and invoice the clean energy adjustment.
5. The right to enforce the duties and obligations under this Act of each electricity vendor to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by an electricity vendor to recover payment of the clean energy adjustment.
6. All rights of any kind (whether in tort, contract or otherwise) that attach or are attendant or incidental to any of the other property rights or interests that comprise the regulatory asset owner's regulatory asset.
7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether such revenue, collections, claims, payments and proceeds are imposed, invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

No set off, etc.

(2) The investment asset shall not be set off or reduced by any person in any circumstance, including,

- (a) by a consumer, an electricity vendor, an agent of the investment asset owner or an owner of distribution system assets in the Province;
- (b) in connection with any default, bankruptcy, reorganization or other insolvency proceeding of a person mentioned in clause (a); or
- (c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment asset owner to collect and enforce its rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with section [xx] of the *Personal Property Security Act*.

Collective action required

(4) If the investment asset owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment asset owner collectively and in coordination with all other investment asset owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment asset owner as a collective in accordance with its terms.

[Note: Successors may need to be addressed here.]

Transfer of investment interest

26xx. An investment asset owner may transfer all or a portion of its rights and interests in an investment interest to any other investment asset owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the owner of the investment interest acquired a valid property right and interest in, to and under the applicable investment interest in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment asset owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the investment asset owner shall have priority over any liens in favour of such other persons.

Investment asset owner may grant security interest

28xx. (1) An investment asset owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that it is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by the owner of an investment interest to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment asset owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any [investment asset account] or other account of any electricity vendor, the IESO, an agent of an electricity vendor or the IESO or other person who may have commingled such revenues or other proceeds with other funds.

PART VI MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, no agent appointed under this Act is an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Sequestration

31xx. (1) A court in the Province may, upon application by an investment asset owner or a secured party, order the sequestration and payment of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment asset owner or secured party by any person or entity authorized to collect the clean energy adjustment, defaults on any required remittance of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Same

(3) An order under subsection (1) shall remain in full force and effect despite any bankruptcy, reorganization or other insolvency proceedings with respect to the person or entity who is subject to the order.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to the transfer of an interest or right or creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section x shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required with respect to the actions to be taken in compliance with this Act, including actions to be taken under the Financing Plan or in relation to the establishment of the Fair Allocation Plan.

Immunity

35xx. (1) No action or other proceeding for damages shall be instituted against any employee of the Province, IESO, OPG or OEB for any act done in good faith in the execution or intended execution of any duty or authority under this Act or for any alleged neglect or default in the execution in good faith of any duty or authority under this Act.

Same

(2) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under this section unless the prescribed requirements, if any, are satisfied.

Non-application, Financial Administration Act, s. 28⁷

37xx. Section 28 of the *Financial Administration Act* does not apply with respect to any transaction or agreement or undertaking required, permitted, contemplated or authorized, directly or indirectly, under this Act.

Regulations

38xx. The Lieutenant Governor in Council may make regulations,

- (a) defining any term used in this Act....
- (b) prescribing types of payment obligations that constitute funding obligations;
- (a) governing the calculation [true-up amount] and how the amount is to be applied to the clean energy adjustment.
- (b) governing the inclusion of adjustments under this Act on invoices, which may include requiring notice to be provided by electricity vendors to specified persons regarding the adjustments.

⁷ Note - see s. 51 of the Electricity Act, 1998

[Note: reg-making powers to be dealt with in subsequent draft]

PART VII AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

- (q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,
 - (i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;
 - (ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;
 - (iii) engaging in activities related to the creation, transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,
 - (iv) incurring liabilities in relation to the regulatory asset
 - (v) transferring the regulatory asset for consideration;
 - (vi) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under that Act and engaging in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including the following:

1. Entering into contracts and undertakings on behalf of special purpose financing entities, including pre-formation contracts and undertakings and as principal in relation to matters permitted by the *Ontario Fair Hydro Plan Act, 2017* subject to the right of reimbursement from amounts available to the financing entity.
2. Preparing reports on behalf of the financing entity.
3. Enforcing the rights of the financing entity.
4. Signing offering documents as sponsor or otherwise on behalf of the financing entity.
5. Exercising the powers and performing the duties of the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*
6. Issuing non-equity securities in Ontario Power Generation Inc. or on if its subsidiaries, for the purpose of raising funds to acquire debt or equity interests in a financing entity whose activities are limited to the incurrence of funding obligations pursuant to the *Ontario Fair Hydro Plan Act, 2017*.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create one or more subsidiaries, trusts or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

202x. Section 89 of the Act would be amended by adding the following subsection:

Exception

(4) The requirement in subsection (1) to pay an amount to the Financial Corporation does not apply in respect of amounts payable to Ontario Power Generation Inc. or a subsidiary of Ontario Power Generation Inc. as a result of its functions as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

203x. Section 90 of the Act would be amended by adding the following subsection:

Exception

(4) The requirement in subsection (1) to pay an amount to the Financial Corporation does not apply in respect of amounts payable to Ontario Power Generation Inc. or a subsidiary of Ontario Power Generation Inc. as a result of its functions as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

[Note: Drafting still to be added to the EA consequential amendments: ***All fees charged by OPG as the FSM shall be approved by the OEB before they are included in the calculation of clean energy adjustments.***]

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

204x. Subsection 1 (1) of the *Ontario Energy Board Act, 1998* would be amended by adding the following paragraph:

6. To facilitate the implementation of the [TBD - language should link up with language from new Act.]

205x. Section 70 of the Act would be amended by adding the following subsection

[Note - still need to draft new subs. 70 (2.1)]

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

SCHEDULE 1
ESTIMATED FINANCE AMOUNT

Estimated finance amount

1. The estimated finance amount for a reference period shall be determined by estimating, prior to the start of a reference period, the sum of the following:

1. The sum of all amounts that are payable during the reference period by or on behalf of the investment asset owners to satisfy an obligation to repay, redeem or repurchase, or to provide for the repayment, redemption or repurchase, of all or a portion of the amount advanced to the owners under a funding obligation, excluding any payment made by applying the proceeds of a refinancing.
2. The sum of all funding costs for the reference period, determined as follows:
 - i. Calculate the aggregate of all interest, scheduled principal and other periodic finance charges accruing, due and becoming payable or paid by or on behalf of investment assets owners during the reference period in respect of all funding obligations, including such amounts as may be prescribed.
 - ii. Calculate the sum of the aggregate of all amounts received by or on behalf of investment asset owners during the reference period in respect of all funding obligations and such other amounts as may be prescribed.
 - iii. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1.
3. The sum of all amounts payable during the reference period by or on behalf of investment asset owners to redeem, prepay or repurchase a funding obligation, including any premium, make-whole or other amount becoming payable under a funding obligation to give effect to the redemption, prepayment or repurchase.
4. The balance of the finance reserve at the end of the reference period, as determined under section 3 to this Schedule.
5. The sum of any other amounts payable during the reference period by or on behalf of investment asset owners that were incurred or committed to directly or indirectly in connection with the incurrence of funding obligations under the Financing Plan during the reference period, which may include such amounts as may be prescribed.

Funding costs

2. For the purposes of paragraph 2 of section 1 to this Schedule, the funding costs for a reference period are determined by taking the following steps:

Finance reserve balance

3. (1) For the purposes of paragraph 4 of section 1 to this Schedule, the balance of the finance reserve at the end of the reference period is determined by taking the following steps:

1. Calculate the sum of all amounts deposited by or on behalf of investment asset owners during the reference period in order to pre-fund, collateralize, over-collateralize or establish reserves for the ultimate payment of funding obligations or for related contingencies specified in the Financing Plan.
2. Calculate the sum of all amounts withdrawn by or on behalf of investment asset owners during the reference period from deposits previously made as described in paragraph 1.
3. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1.

From: Gadi Mayman []
To: Mike Manning [Mike.Manning@ofina.on.ca]; Ken Kandeepan [Ken.Kandeepan@ofina.on.ca]; Ronald Kwan [Ronald.Kwan@ofina.on.ca]
CC: Anna Strathy [Anna.Strathy@ofina.on.ca]
Subject: Fw: Guarantee
Date: Friday, April 21, 2017 14:39:40
Attachment 1: LAWS OF THE STATE OF NEW YORK - CHAPTER 173 OF 2013.docx
Attachment 2: summary of securitization provisions in LIPA Reform Act.docx
Attachment 3: Summary of Duke Energy Securitization.docx
Attachment 4: Moody's - Securities Backed by Utility Cost Recovery Charges Jun 2015.pdf
Attachment 5: Moody's - Long Island Power Authority Utility Cost Recovery Bonds - Seri....pdf
Attachment 6: Moody's - Long Island Power Authority Utility Cost Recovery Bonds - Seri....pdf
Attachment 7: Moody's - Duke Energy Florida Project Finance, LLC Series A Bonds.pdf
Attachment 8: S&P - List of S&P Rated Stranded Cost Transactions (2013).pdf
Attachment 9: S&P - Securitizing Stranded Costs_S&P Criteria (2001).pdf
Attachment 10: Fair Hydro Plan Act (April 20 2017) Consultation v3.docx

From: Hanslep, Malle (MOF) <Malle.Hanslep@ontario.ca>
Sent: Friday, April 21, 2017 2:38 PM
To: Gadi Mayman; Anna Strathy
Cc: Tobias P. Whitfield (MOF); Michael Waterston (MOF)
Subject: FW: Guarantee

Some more information sent by Carolyn.

From: Calwell, Carolyn (ENERGY/MEDEI/MRI)
Sent: April 21, 2017 2:37 PM
To: Hanslep, Malle (MOF); Waterston, Michael (MOF)
Cc: Johnson, Paul (ENERGY/MEDEI/MRI); Whitfield, Tobias P. (MOF)
Subject: RE: Guarantee

Malle & Toby – thanks for speaking to us about the Ontario Fair Hydro Plan proposal. I have attached information that we have about the US arrangements. Here is a link to the Florida statute (Duke):

: http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0300-0399/0366/Sections/0366.95.html[leg.state.fl.us] .

I will share any more information about the guarantee that I see. I also attach the current version of the legislation just in case you received something different.

Carolyn

From: Hanslep, Malle (MOF)
Sent: April-21-17 12:26 PM
To: Calwell, Carolyn (ENERGY/MEDEI/MRI); Waterston, Michael (MOF)

Cc: Johnson, Paul (ENERGY/MEDEI/MRI); Whitfield, Tobias P. (MOF)
Subject: RE: Guarantee

Hi Carolyn,

Thanks for your email. Would it be possible to arrange a conference call today with yourself or your counsel most knowledgeable on this proposed securitization and transaction so that we can get an understanding of it and how it fits into any proposed authorizing legislation. Unfortunately we are not familiar with the proposed transaction although we have seen some general background information about the proposal. What role would a guarantee of investment dealers have in the transaction? We do have a copy of the legislation that we got via our clients at OFA and they were more engaged in the issue of a future proposed equity injection, but the most recent version that we have seen does not mention guarantees although there seems to be a very general contract authorization section. Of course, we have to generally think about s. 28 as well.

A call today to over the main elements of the proposed transaction and the legislation would be very helpful so that we can get back to Gadi.

Malle

From: Calwell, Carolyn (ENERGY/MEDEI/MRI)
Sent: April 20, 2017 2:33 PM
To: Waterston, Michael (MOF)
Cc: Hanslep, Malle (MOF); Johnson, Paul (ENERGY/MEDEI/MRI)
Subject: RE: Guarantee

Hi Michael & Malle – we will be sending you draft legislation to take a look at. Actual guarantees will follow later.

This relates to the government's Fair Hydro Plan and the promise to reduce rates by 25% by July. We are doing a sort of securitization, for which the legislation will provide a framework. We are contemplating provisions that allow "the Minister" to enter into agreements with respect to transactions contemplated by the legislation. Gadi and DM Angus are of the view that Minister should be MOF, as the agreements are likely to be guarantees to investment dealers. Indemnities for the boards of OPG and IESO will also be required, although we didn't talk about who would sign those.

Happy to answer your questions or walk you through the proposed bill.

Carolyn

From: Waterston, Michael (MOF)
Sent: April-20-17 2:25 PM
To: Calwell, Carolyn (ENERGY/MEDEI/MRI)
Cc: Hanslep, Malle (MOF)
Subject: Guarantee

Hi Carolyn,

Gadi Mayman gave us a heads up that you might be giving us a call about a proposed guarantee that the Minister of Finance may be required to sign in relation to the changes to the global adjustment.

We're happy to discuss this. This afternoon is busy but tomorrow afternoon may work.

Thanks!

Michael

Michael Waterston

Legal Director

Ontario Ministry of the Attorney General

Legal Services Branch, Ministry of Finance

416-326-7918

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ASSEMBLY BILL #A8073 SAME AS SENATE BILL #S5844

LAWS OF NEW YORK, 2013

CHAPTER 173

AN ACT to amend the public service law, the public authorities law, the executive law and the education law, in relation to the powers and duties of the department of public service and the Long Island power authority; to repeal subdivision (u) of section 1020-f of the public authorities law relating to general powers of the authority; and providing for the repeal of certain provisions upon expiration thereof (Part A); and in relation to the issuance of securitized restructuring bonds to refinance the outstanding debt of the Long Island power authority (Part B)

Became a law July 29, 2013, with the approval of the Governor.
Passed by a majority vote, three-fifths being present.

The People of the State of New York, represented in Senate and Assembly,
do enact as follows:

Section 1. This act enacts into law major components of legislation relating to issues deemed necessary by the state. Each component is wholly contained within a Part identified as Parts A through B. The effective date for each particular provision contained within such Part is set forth in the last section of such Part. Any provision in any section contained within a Part, including the effective date of the Part, which makes reference to a section "of this act", when used in connection with a particular component, shall be deemed to mean and refer to the corresponding section of the Part in which it is found.

Section three of this act sets forth the general effective date of this act.

PART A

Section 1. Section 3 of the public service law, as amended by chapter 8 of the laws of 2012, is amended and a new section 3-b is added to read as follows:

§ 3. Department of public service. [~~1.~~] There shall be in the state government a department of public service. The chairman of the public service commission shall be the chief executive officer of the department. He or she shall appoint and shall have the power to remove, subject to the provisions of the civil service law, all officers, clerks, inspectors, experts and employees of the department, and to approve all contracts for special service. The chairman shall designate one of the commissioners in the department or an officer of the department to act as deputy chairman during the absence or disability of the chairman and during such times such deputy chairman shall possess all the powers of the chairman as chief executive officer of the department.

~~[2. The department shall, upon notification to the Long Island power authority, undertake a comprehensive and regular management and operations audit of said authority pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law. The department shall have discretion to have such an audit performed by its staff, or~~

EXPLANATION--Matter in italics is new; matter in brackets [-] is old law

to be omitted.

~~CHAP. 173~~ ~~2~~

~~by an independent contractor. In every case in which an audit is required pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law performed by an independent auditor, the department shall have the authority to select the auditor, and to require the Long Island power authority to enter into a contract with the auditor that is consistent with the contracting-related requirements specified in subdivision nineteen of section sixty-six of this chapter and the requirements of subdivision (bb) of section one thousand twenty-f of the public authorities law. Such contract shall provide further that the auditor shall work for and under the direction of the department according to such terms as the department may determine are necessary and reasonable.]~~

§ 3-b. Long Island office of the department.

1. There is hereby established in the department an office to review and make recommendations with respect to the operations and terms and conditions of service of, and rates and budgets established by, the Long Island power authority and/or its service provider.

2. Definitions. As used or referred to in this section:

(a) "Authority" means the Long Island power authority.

(b) "Service provider" means the entity under contract with the authority to provide management and operation services associated with the authority's electric transmission and distribution system and any subsidiary of such entity that provides such services under contract. However, the service provider and any affiliate of the service provider with whom the authority or service provider contracts to provide services associated with the authority's electric transmission and distribution system shall not be considered an electric corporation under this chapter.

(c) "Operations services agreement" means an agreement and any amendments thereto between the Long Island lighting company dba LIPA or the Long Island power authority and the service provider to provide management and operation services associated with the authority's electric transmission and distribution system.

3. General powers. In undertaking the requirements of this section, subject to subdivisions (u) and (bb) through (hh) of section one thousand twenty-f of the public authorities law, the department shall be empowered and authorized to:

(a) Review and make recommendations to the board of the Long Island power authority with respect to the rates and charges, including charges related to energy efficiency and renewable energy programs, to be established by the authority and become applicable on or after January first, two thousand sixteen pursuant to subdivision (u) of section one thousand twenty-f of the public authorities law.

(i) The purpose of such review is to make recommendations designed to ensure that the authority and the service provider provide safe and adequate transmission and distribution service at rates set at the lowest level consistent with sound fiscal operating practices.

(ii) The department's recommendations shall be designed to be consistent with ensuring that the revenue requirements related to such rate review are sufficient to satisfy the authority's obligations with respect to its bonds, notes and all other contracts.

(iii) In the context of such review, the department may not make any recommendation that would modify the compensation or fee structure included within the operations services agreement.

(iv) In undertaking such review and in making recommendations related to the proposed rates and charges, the department shall establish standards,

policies and procedures that, at a minimum, provide for public statement and evidentiary hearings and participation of intervenors and other parties, and ensure that any final recommendations related to the proposed rates and charges are provided to the authority within two hundred forty days of the filing with the department of such plan.

(v) The parties to any such rate review proceeding shall include, but not be limited to, department staff, the authority, the service provider and, to the extent it deems necessary or appropriate, the utility intervention unit.

(b) Review the annual capital expenditures proposed by the service provider and recommend such improvement in the manufacture, conveying, transportation, distribution or supply of electricity, or in the methods employed by the service provider as in the department's judgment allows for safe and adequate service.

(c) Annually review the emergency response plan of the authority and the service provider in accordance with the following requirements:

(i) Examine and determine whether the emergency response plan is consistent with the requirements of paragraph (a) of subdivision twenty-one of section sixty-six of this chapter and any regulations or orders promulgated thereto, and to recommend amendments of same; and

(ii) Review and make recommendations to the authority with respect to the performance of the service provider in restoring service or otherwise meeting the requirements of the emergency response plan during an emergency event, defined for purposes of this section as an event where widespread outages have occurred in the authority's service territory due to a storm or other causes beyond the control of the authority and its service provider, including making determinations with respect to whether the service provider is reasonably able to implement the emergency response plan, whether the length of any outages related to such emergency were materially longer than they would otherwise have been because the service provider failed to reasonably implement the emergency response plan, the reasonableness of costs associated with such emergency response, the costs, if any, that were unreasonably and imprudently incurred by the service provider, and whether the service provider would be liable for any such costs pursuant to the terms and conditions of the operations services agreement.

(d) Upon notification to the Long Island power authority, undertake a comprehensive and regular management and operations audit of the authority and service provider pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law. The department shall have discretion to have such an audit performed by its staff, or by an independent contractor. In every case in which an audit is required pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law performed by an independent auditor, the department shall have the authority to select the auditor, and to require the authority to enter into a contract with the auditor that is consistent with the contracting-related requirements specified in subdivision nineteen of section sixty-six of this chapter and the requirements of subdivision (bb) of section one thousand twenty-f of the public authorities law. Such contract shall provide further that the auditor shall work for and under the direction of the department

according to such terms as the department may determine are necessary and reasonable.

(e) Accept, investigate, mediate to resolve and make recommendations to the Long Island power authority and/or the service provider regarding the resolution of complaints from consumers in the authority's service

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territory relating to, among other things, the provision of electric service provided by the service provider and/or the authority.

(f) Review the net metering program implemented under subdivision (h) of section one thousand twenty-g of the public authorities law and make recommendations designed to ensure consistency with the requirements of sections sixty-six-j and sixty-six-l of this chapter, and any regulations and orders adopted thereto.

(g) Review and make recommendations with respect to any proposed plan submitted by the Long Island power authority and/or the service provider related to implementation of energy efficiency measures, distributed generation or advanced grid technology programs having the purpose of providing customers with tools to more efficiently and effectively manage their energy usage and utility bills, and improving system reliability and power quality.

(h) Review the data, information and reports submitted pursuant to subdivision (hh) of section one thousand twenty-f of the public authorities law and other pertinent information related to the metrics in the operations services agreement, the Long Island power authority's evaluation of such data, information and reports, and make recommendations to the authority with respect to the service provider's annual incentive based compensation within thirty days of receipt of such evaluation and information.

4. Review and inspection. To undertake the requirements of subdivision two of this section, the department shall be authorized to inspect all premises and facilities owned or operated by the authority and the service provider, review all books and records of the authority and the service provider, interview all appropriate personnel, and require annual reporting consistent with the requirements of subdivision six of section sixty-six of this chapter and any regulations and orders adopted thereto; provided, however, that this authority shall not extend to affiliates of the service provider.

§ 2. Subdivision 2 and paragraph (b) of subdivision 6 of section 18-a of the public service law, subdivision 2 as amended by section 2 of part NN of chapter 59 of the laws of 2009 and paragraph (b) of subdivision 6 as amended by section 1 of part BB of chapter 59 of the laws of 2013, are amended and a new subdivision 1-a is added to read as follows:

1-a. All costs and expenses of the department related to the department's responsibilities under section three-b of this chapter shall be paid pursuant to appropriation on the certification of the chairman of the department and upon the audit and warrant of the comptroller. For the state fiscal year beginning on April first, two thousand fourteen and each state fiscal year thereafter, payments are to be made from all moneys collected from the Long Island power authority pursuant to this section. The total of such costs and expenses shall be assessed on such authority in the manner provided in subdivisions two, three and four of this section.

2. (a) The chairman of the department shall estimate prior to the start of each state fiscal year the total costs and expenses, including the compensation and expenses of the commission and the department, their officers, agents and employees, and including the cost of retirement contributions, social security, health and dental insurance, survivor's benefits, workers' compensation, unemployment insurance and other fringe

benefits required to be paid by the state for the personnel of the commission and the department, and including all other items of maintenance and operation expenses, and all other direct and indirect costs. Based on such estimates, the chairman shall determine the amount

to be paid by each assessed public utility company and the Long Island power authority and a bill shall be rendered to each such public utility company and authority.

(b) The bill for each public utility company and the Long Island power authority shall be rendered on or before February first preceding each fiscal year, and shall be for the amount equal to the product of the aforesaid estimated costs and expenses of conducting the department's and commission's total operations during the fiscal year for which billing is being made multiplied by the proportion which compares:

(1) the gross operating revenues, over and above five hundred thousand dollars, for that utility company or the authority derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman, to:

(2) the total of the gross operating revenues, derived from intrastate utility operations for all utility companies and the authority in the state which revenues are included under subparagraph one of this paragraph.

For the purposes of calculating the commodity cost component of its gross operating revenue, where the utility delivers to end-use customers electricity and/or natural gas commodities that are sold to such customers by a third party, such utility shall include in its revenues an estimate of the sales revenue for the electric and/or natural gas commodities that it delivers, including all such commodities sold to end-use customers by third parties, in such manner as to assure that all end-use delivery customers, regardless of the entity from which they purchase their electric and/or natural gas commodities, bear a fair and proportionate share of the assessment imposed herein, as the commission may determine.

(c) The minimum assessment for any utility company, as well as the Long Island power authority, whose gross revenues from intrastate utility operations are in excess of five hundred thousand dollars in the preceding calendar year shall be two hundred dollars.

(d) The amount of such bill for fiscal years beginning on or after April first, nineteen hundred eighty-three so rendered shall be paid by such public utility company and such authority to the department on or before April first; provided, however, that [a] any such utility company or such authority may elect to make partial payments for such costs and expenses on March tenth of the preceding fiscal year and on September tenth of such fiscal year. Each such partial payment shall be a sum equal to fifty percentum of the estimate of costs and expenses to be assessed against such utility company or authority under the provisions of this subdivision and shall not be less than two hundred dollars.

(e) During the course of any state fiscal year, the chairman may increase or decrease the estimate of costs and expenses. In such case, revised bills shall be sent to each public utility company and such authority, and such increase or decrease shall be equally apportioned against the remaining payments for such fiscal year.

(f) On or before October tenth of each year, the chairman shall compute the actual costs and expenses of the department and the commission and adjustments or other corrections as needed for the preceding state fiscal year and, after deducting the amounts recovered pursuant to subdivisions three and four of this section, shall, on or before October twentieth, send to each public utility company and/or the authority affected thereby a

statement setting forth the amount due and payable by, or the amount standing to the credit of, such public utility company and/or the authority. Any amount owing by any public utility company

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and/or the authority shall be paid not later than thirty days following the date such statement is received. Any such amount standing to the credit of any public utility company shall be refunded by the commission or, at the option of such utility company, shall be applied as a credit against any succeeding payment due.

(g) The total amount which may be charged to any public utility company and the Long Island power authority under authority of this subdivision for any state fiscal year shall not exceed one per centum of such public utility company's or authority's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman; provided, however, that no corporation or person that is subject to the jurisdiction of the commission only with respect to safety, or the power authority of the state of New York, shall be subject to the general assessment provided for under this subdivision.

Notwithstanding the provisions of subdivision one of this section, for telephone corporations as defined in subdivision seventeen of section two of this article, the total amount which may be charged such corporations for department expenses under the authority of subdivision one of this section for any state fiscal year shall not exceed one-third of one percentum of such corporation's gross operating revenue, over and above five hundred thousand dollars, derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman.

(h) On-bill recovery charges billed pursuant to section sixty-six-m of this chapter shall be excluded from any determination of an entity's gross operating revenues derived from intrastate utility operations for purposes of this section.

(b) The temporary state energy and utility service conservation assessment shall be based upon the following percentum of the utility entity's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, minus the amount, if any, that such utility entity is assessed pursuant to subdivisions one and two of this section for the corresponding state fiscal year period: (1) two percentum for the state fiscal year beginning April first, two thousand thirteen and the state fiscal year beginning April first, two thousand fourteen; (2) one and three-quarters percentum for the state fiscal year beginning April first, two thousand fifteen; and (3) one and one-half percentum for the state fiscal year beginning April first, two thousand sixteen. With respect to the temporary state energy and utility service conservation assessment to be paid for the state fiscal year beginning April first, two thousand seventeen and notwithstanding clause (i) of paragraph (d) of this subdivision, on or before March tenth, two thousand seventeen, utility entities shall make a payment equal to one-half of the assessment paid by such entities pursuant to this paragraph for the state fiscal year beginning on April first, two thousand sixteen. With respect to the Long Island power authority, the temporary state energy and utility service conservation assessment shall be based upon the following percentum of such authority's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, minus the amount, if any, that such authority is assessed pursuant to subdivisions one-a and two of this section for the corresponding state fiscal year period: (1) one percentum for the state fiscal year beginning April first,

two thousand thirteen and the state fiscal year beginning April first, two thousand fourteen; (2) three- quarters of one percentum for the state fiscal year beginning April

first, two thousand fifteen; and (3) one-half percentum for the state fiscal year beginning April first, two thousand sixteen; provided, however, that should the amount assessed by the department for costs and expenses pursuant to such subdivisions equal or exceed such authority's temporary state energy and utility service conservation assessment for a particular fiscal year, the amount to be paid under this subdivision by such authority shall be zero.

With respect to the temporary state energy and utility service conservation assessment to be paid for the state fiscal year beginning April first, two thousand seventeen and notwithstanding clause (i) of paragraph (d) of this subdivision, on or before March tenth, two thousand seventeen, the Long Island power authority shall make a payment equal to one-half of the assessment it paid for the state fiscal year beginning on April first, two thousand sixteen. No corporation or person subject to the jurisdiction of the commission only with respect to safety, or the power authority of the state of New York, shall be subject to the temporary state energy and utility service conservation assessment provided for under this subdivision. Utility entities whose gross operating revenues from intrastate utility operations are five hundred thousand dollars or less in the preceding calendar year shall not be subject to the temporary state energy and utility service conservation assessment. The minimum temporary state energy and utility service conservation assessment to be billed to any utility entity whose gross revenues from intrastate utility operations are in excess of five hundred thousand dollars in the preceding calendar year shall be two hundred dollars.

§ 3. Section 1020-b of the public authorities law is amended by adding two new subdivisions 23 and 24 to read as follows:

23. "Service provider" means the entity under contract with the authority to provide management and operation services associated with the authority's electric transmission and distribution system and any subsidiary of such entity that provides such services under contract.

24. "Operations services agreement" means an agreement and any amendments thereto between the Long Island lighting company dba LIPA or the authority and the service provider to provide management and operation services associated with the authority's electric transmission and distribution system.

§ 4. Section 1020-d of the public authorities law, as added by chapter 506 of the laws of 1995, is amended to read as follows:

§ 1020-d. [~~Trustees~~] Board of trustees.

1. [~~The~~] Starting on January first, two thousand fourteen, the board of the authority shall be constituted and consist of [~~fifteen~~] nine trustees all of whom shall be residents of the service area, [~~nine~~] five of whom shall be appointed by the governor, one of whom the governor shall designate as [~~chairman~~] chair, and serve at his or her pleasure, [~~three~~] two of whom shall be appointed by the temporary president of the senate, and [~~three~~] two of whom shall be appointed by the speaker of the assembly. [~~Two~~] One of the governor's appointees shall serve an initial term of [~~one-year~~] two years; [~~two~~] one of the governor's appointees shall serve an initial term of [~~two~~] three years; [~~two~~] and three of the governor's appointees shall serve an initial term of [~~three~~] four years[~~; and three of the governor's appointees shall serve an initial term of four years~~]. [~~Two~~] One of the appointees of the temporary president of the senate and [~~two~~] one of the appointees of the speaker of the assembly shall serve initial terms of [~~one-year~~] two years;

and one appointee of the temporary president of the senate and one appointee of the speaker of the assembly shall serve initial terms of [~~two~~] three years. Thereafter, all terms

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shall be for a period of four years. In the event of a vacancy occurring in the office of trustee by death, resignation or otherwise, the respective appointing officer shall appoint a successor who shall hold office for the unexpired portion of the term.

2. No trustee shall receive a salary, but each shall be entitled to reimbursement for reasonable expenses in the performance of duties assigned hereunder.

3. Notwithstanding the provisions of any other law, no trustee, officer or employee of the state, any state agency or municipality appointed a trustee shall be deemed to have forfeited or shall forfeit his or her office or employment by reason of his or her acceptance of a trusteeship on the authority, his or her service thereon or his or her employment therewith.

4. All trustees appointed under this section shall have relevant utility, corporate board or financial experience.

§ 5. On or before December 1, 2013 the governor, the temporary president of the senate and the speaker of the assembly shall choose and announce their appointments to the board of the Long Island power authority to be made pursuant to section 1020-d of the public authorities law, as amended by section four of this act, giving due consideration to continuity of business. The board of trustees of the Long Island power authority in existence on December 31, 2013, shall be abolished on such date and be constituted on January 1, 2014 pursuant to section 1020-d of the public authorities law, as amended by section four of this act.

§ 6. Subdivision (u) of section 1020-f of the public authorities law is REPEALED.

§ 7. Subdivisions (c) and (bb) of section 1020-f of the public authorities law, subdivision (c) as amended by chapter 506 of the laws of 2009 and subdivision (bb) as added by chapter 8 of the laws of 2012, are amended and seven new subdivisions (u), (cc), (dd), (ee), (ff), (gg) and (hh) are added to read as follows:

(c) To appoint officers, agents and employees, without regard to any personnel or civil service law, rule or regulation of the state and in accordance with guidelines adopted by the authority, prescribe their duties and qualifications and fix and pay their compensation [~~, provided, however, that the appointment of the chief executive officer shall be subject to confirmation by the senate in accordance with section twenty-eight hundred fifty-two of this chapter;~~]. By January first, two thousand fourteen, the authority, through its governance committee, shall amend such guidelines to require that staffing at the authority is kept at levels only necessary to ensure that the authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and oversee the activities of the service provider;

(u) Rate plans. Subject to subdivision six of section one thousand twenty-k of this title to fix rates and charges for the furnishing or rendition of gas or electric power or of any related service at the lowest level consistent with sound fiscal and operating practices of the authority and which provide for safe and adequate service. In implementing this power:

1. The authority and the service provider shall, on or before February first, two thousand fifteen, submit for review to the department of public service a three-year rate proposal for rates and charges to take effect on or after January first, two thousand sixteen.

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2. The authority and the service provider shall thereafter submit for review to the department of public service any rate proposal that would increase the rates and charges and thus increase the aggregate revenues of the authority by more than two and one-half percent to be measured on an annual basis; provided, however, that the authority may place such rates and charges into effect on an interim basis, subject to prospective rate adjustment; provided, further, that a final rate plan issued by the authority that would not so increase such rates and charges shall not be subject to the requirements of paragraph four of this subdivision and shall be considered final for the purposes of review under article seventy-eight of the civil practice law and rules. The authority and/or the service provider may otherwise submit for review to such department any rate proposal irrespective of its effect on revenues.

3. The authority shall not fix any final rates and charges proposed that would not be subject to review by the department of public service pursuant to paragraphs one and two of this subdivision until after holding public hearings thereon upon reasonable public notice, with at least one such hearing to be held each in the county of Suffolk and the county of Nassau.

4. Any recommendations associated with a rate proposal submitted pursuant to paragraphs one and two of this subdivision shall be provided by the department of public service to the board of the authority immediately upon their finalization by the department. Unless the board of the authority makes a preliminary determination in its discretion that any particular recommendation is inconsistent with the authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service, the board shall implement such recommendations as part of its final rate plan and such final determination shall be deemed to satisfy the requirements of this subdivision and be considered final for the purposes of review under article seventy-eight of the civil practice law and rules. The board shall make any such preliminary determination of inconsistency within thirty days of receipt of such recommendations, with notice and the basis of such determination being provided to the department of public service, and contemporaneously posted on the websites of the authority and its service provider. The board shall thereafter, within thirty days of such posting and with due advance notice to the public, hold a public hearing with respect to its preliminary determination of inconsistency.

At such hearing, the department of public service shall present the basis for its recommendations, the board shall present the basis for its determination of inconsistency and the service provider may present its position. The authority and the service provider may, during the time period before such public hearing reach agreement with the department on disputed issues. Within thirty days after such public hearing, the board of the authority shall announce its final determination and planned implementation with respect to any such recommendations. The authority's final determination of inconsistency shall be subject to any applicable judicial review proceeding, including review available under article seventy-eight of the civil practice law and rules.

(bb) Comprehensive and regular management and operations audits.

1. The authority and the service provider shall cooperate in the undertaking and completion of a regular and comprehensive management and operations audit conducted pursuant to the requirements of this subdivision and ~~[subdivision two of section three]~~ paragraph (d) of subdivision three of section three-b of the public service law. Such audit shall review and evaluate the ~~[authority's]~~ overall operations and management

of the authority and service provider, including ~~[the authority's]~~ such operations and management in the context of ~~[its]~~ the authority's duty to set rates at the lowest level consistent with standards and procedures provided in subdivision (u) of this section, and include, but not be limited to: (i) the ~~[authority's]~~ service provider's construction and capital program planning in relation to the needs of ~~[its]~~ customers for reliable service; (ii) the overall efficiency of the authority's and service provider's operations; (iii) the manner in which the authority is meeting its debt service obligations; (iv) the authority's Fuel and Purchased Power Cost Adjustment clause and recovery of costs associated with such clause; (v) the authority's and service provider's annual budgeting procedures and process; (vi) the application, if any, of the performance metrics designated in the operations services agreement and the accuracy of the data relied upon with respect to such application; and ~~[(vi)]~~ (vii) the authority's compliance with debt covenants.

2. The department of public service shall notify the authority that said department is in the process of initiating a comprehensive management and operations audit as described in paragraph one of this subdivision in a manner that ensures the timeliness of such audit, and in accordance with the following timeframe: the first comprehensive management and operations audit shall be initiated as of the effective date of ~~[this subdivision]~~ chapter eight of the laws of two thousand twelve and undertaken in a manner and to an extent that is practicable in the context of the authority's transition to a new management service structure; the second comprehensive management and operations audit shall be initiated no later than December fifteenth, two thousand ~~[fifteen]~~ sixteen; and all additional comprehensive management and operations audits shall be initiated at least once every five years thereafter.

Within a reasonable time after such notification to the authority, said department or the independent auditor retained by the authority to undertake such audit shall hold public statement hearings, with proper notice, in both Nassau and Suffolk counties for the purpose of receiving both oral and written comments from the public on matters related to such audit as described in paragraph one of this subdivision.

3. Each such audit shall be completed within eighteen months of initiation absent an extension for good cause shown by the department of public service or the independent auditor under contract with the authority with notice of such extension to the governor, the temporary president of the senate, the speaker of the assembly, and the chairs of the authority and the department of public service. Such audit shall be provided to the board of the authority immediately upon its completion.

The department of public service shall provide notice of completion of such audit to the governor, the temporary president of the senate, the speaker of the assembly, and the minority leaders of the senate and assembly, and the authority, upon receipt of such audit, shall post a copy of such audit, including findings and recommendations, on its website and the website of the service provider. Unless the board of the authority makes a preliminary determination that any particular finding or recommendation contained in such audit is inconsistent with the authority's sound fiscal operating practices, any existing contractual or operating obligation, or the provision for safe and adequate service, the board shall implement or cause its service provider to implement such findings and recommendations in accordance with the timeframe specified under such audit.

4. The board of the authority shall make any preliminary determination of inconsistency with respect to any such finding or recommendation

within thirty days of receipt of the audit, with notice and the basis of such determination being provided to the department of public service.

Such notice and basis shall be posted contemporaneously on the authority's website and the website of the service provider and the board shall, within thirty days of such posting and with due advance notice to the public, hold a public hearing with respect to its preliminary determination of inconsistency. At such hearing the department of public service or the independent auditor responsible for undertaking such audit shall present the basis for its findings and recommendations and the board shall present the basis for its determination of inconsistency and the service provider may present its position. The authority, service provider and auditor may during the time period prior to such public hearing reach agreement on disputed issues. Within thirty days after such public hearing, the board of the authority shall announce its final determination and planned implementations with respect to any such findings and/or recommendations. The ~~[board's]~~ authority's final determination of inconsistency shall be subject to any applicable judicial review proceeding, including review available under article seventy-eight of the civil practice law and rules.

(cc) To prepare an emergency response plan pursuant to this subdivision.

1. The service provider shall, in consultation with the authority, prepare and maintain an emergency response plan (i) to assure the reasonably prompt restoration of service in the case of an emergency event, defined for purposes of this subdivision as an event where wide-spread outages have occurred in the authority's service territory due to a storm or other causes beyond the control of the authority and the service provider, (ii) consistent with the requirements of paragraph (a) of subdivision twenty-one of section sixty-six of the public service law and any regulations and orders adopted thereto, and (iii) establishing the separate responsibilities of the authority and service provider.

2. On or before February third, two thousand fourteen, the authority and service provider shall submit an emergency response plan to the department of public service for review. Contemporaneously with such submission, the authority shall provide notice of such proposed plan to the secretary of state for publication in the state register, the authority and service provider each shall post such plan on their websites and otherwise make such plan available for review in-person, and afford members of the public an opportunity to submit written comments and oral comments pursuant to at least one hearing to be held each in the county of Suffolk and the county of Nassau. Such written comments must be submitted by March fourteenth, two thousand fourteen.

The authority and service provider shall provide a copy of all written comments they receive and a transcript of such public hearings to the department of public service for its consideration in reviewing the emergency response plan. The department shall provide any recommendations to the authority and service provider with respect to such plan on or before April fifteenth, two thousand fourteen. Such plan must be made final by June second, two thousand fourteen. For each year thereafter, the service provider shall submit an emergency response plan to the department of public service, and such department shall provide its recommendations, in accordance with a schedule to be established by such department and that is consistent with the schedule associated with such department's review of similar such plans provided by electric corporations pursuant to subdivision twenty-one of section sixty-six of the public service law.

3. By June second, two thousand fourteen, and by June first annually thereafter, the authority and service provider shall jointly certify to the department of homeland security and emergency services that the emergency response plan ensures, to the greatest extent feasible, the timely and safe restoration of energy services after an emergency consistent with the requirements of paragraph (a) of subdivision twenty-one of the public service law and the department's recommendations. The filing of such emergency response plan shall also include a copy of all written mutual assistance agreements among utilities. The authority and service provider shall file with the county executives of Nassau and Suffolk county and the mayor of the city of New York the most recent version of the emergency response plan, and make sure that such amended versions are timely filed.

4. Starting in calendar year two thousand fourteen, the service provider annually shall undertake at least one drill to implement procedures to practice its emergency response plan. The service provider shall notify and allow participation in such drill of all appropriate municipal emergency responders and officials.

5. If, during an emergency event, electric service is not restored in three days, the service provider shall within sixty days from the date of full restoration file with the department a report constituting a review of all aspects of the preparation and system restoration performance during the event, and shall thereafter take into consideration any recommendations made by the department associated with such review.

(dd) On or before January first, two thousand fifteen, and by January first of each calendar year thereafter, to submit for review to the department of public service a report detailing the service provider's planned capital expenditures.

(ee) On or before July first, two thousand fourteen, and annually thereafter, to submit for review to the department of public service any proposed plan related to implementing energy efficiency measures, distributed generation or advanced grid technology programs for the purpose provided pursuant to paragraph (g) of subdivision three of section three-b of the public service law.

(ff) To assist and cooperate with the department of public service with respect to any review undertaken pursuant to section three-b of the public service law, including providing the department with reasonable access to all facilities and premises owned or operated by the authority or its service provider, allowing review of all books and records of the authority and its service provider, providing copies of requested documents, allowing interviews of all appropriate personnel, and responding in a reasonable and timely manner to any inquiries or reporting requests made by the department; provided, however, that the obligations set forth in this subdivision shall not extend to affiliates of the service provider.

(gg) Renewable generation and energy efficiency programs. 1. The authority in coordination with the service provider, the power authority of the state of New York and the New York state energy research and development authority shall, to the extent the authority's rates are sufficient to provide safe and adequate transmission and distribution service, and the measures herein, undertake actions to design and administer renewable energy and energy efficiency measures in the service area, with the goal of continuing and expanding such measures that cost-effectively reduce system-wide peak demand, minimize long-term fuel price risk to rate payers, lower emissions, improve environmental quality, and seek to meet New York state climate change and environmental

goals. Such actions shall also include implementation of any renewable energy competitive procurement or feed-in-tariff programs that were approved by the authority as of the effective date of the chapter of the laws of two thousand thirteen which added this subdivision.

2. The service provider shall consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans.

(hh) Starting in calendar year two thousand fifteen, the authority and the service provider shall submit to the department of public service for review, any and all data, information and reports which set forth the service provider's actual performance related to the metrics in the operations services agreement, including the authority's evaluation thereof, no less than forty-five days prior to the authority's determination of the service provider's annual incentive compensation.

§ 8. Section 1020-q of the public authorities law, as added by chapter 517 of the laws of 1986 and subdivision 2 as amended by section 19 of part Y of chapter 63 of the laws of 2000, is amended to read as follows:

§ 1020-q. Payments in lieu of taxes. 1. Each year after property theretofore owned by LILCO is acquired by the authority by any means authorized by this title and, as a consequence, is removed from the tax rolls, the authority shall make payments in lieu of taxes to municipalities and school districts equal to the taxes and assessments which would have been received from year to year by each such jurisdiction if such acquisition had not occurred, ~~[except for such taxing jurisdictions which tax the Shoreham plant, in which case the in lieu of tax payments shall in the first year after the acquisition be equal to one hundred percent of the taxes and assessments which would have been received by such taxing jurisdictions. In each succeeding year such in lieu of tax payments shall be decreased by ten percent until such time as such payments equal taxes and assessments which would have been levied on such plant in a nonoperative state]~~ provided, however, that for the calendar year starting on January first, two thousand fifteen, and for each calendar year thereafter, such payments in lieu of taxes shall not exceed the in lieu of tax payments made to such municipalities and school districts in the immediately preceding year by more than two percent.

2. The authority shall also make payments in lieu of taxes for those taxes which would otherwise be imposed ~~[upon LILCO, if LILCO were to continue in operation,]~~ pursuant to sections one hundred eighty-six-a and one hundred eighty-six-c of the tax law, and to former ~~[sections one hundred eighty-six and]~~ section one hundred eighty-six-b of the tax law as such ~~[sections one hundred eighty-six and one hundred eighty-six b were]~~ section was in effect on December thirty-first, nineteen hundred ninety-nine, ~~[paragraph (b) of subdivision four of section one hundred seventy-four of the navigation law,]~~ and any taxes imposed by a city pursuant to the authorization granted by section twenty-b of the general city law.

3. No municipality or governmental subdivision, including a school district or special district, shall be liable to the authority or any other entity for a refund of property taxes originally assessed against the Shoreham plant. Any judicial determination that the Shoreham plant assessment was excessive, unequal or unlawful for any of the years from nineteen hundred seventy-six to the effective date of this title shall not result in a refund by any taxing jurisdiction of taxes previously paid by LILCO pursuant to such Shoreham plant assessment. The authority shall discontinue and abandon all proceedings, brought by its predecessor

in interest, which seek the repayment of all or part of the taxes assessed against the Shoreham plant.

§ 9. Subdivision 1 of section 1020-s of the public authorities law, as amended by chapter 388 of the laws of 2011, is amended to read as follows:

1. The rates, services and practices relating to the electricity generated by facilities owned or operated by the authority shall not be subject to the provisions of the public service law or to regulation by, or the jurisdiction of, the public service commission, except to the extent (a) article seven of the public service law applies to the siting and operation of a major utility transmission facility as defined there-in, (b) article ten of such law applies to the siting of a generating facility as defined therein, ~~[and]~~ (c) section eighteen-a of such law provides for assessment for certain costs, property or operations, and (d) to the extent that the department of public service reviews and makes recommendations with respect to the operations and provision of services of, and rates and budgets established by, the authority pursuant to section three-b of such law.

§ 10. Section 1020-w of the public authorities law, as added by chapter 517 of the laws of 1986, is amended to read as follows:

§ 1020-w. Audit and annual reports. The accounts of the authority shall be subject to the supervision of the state comptroller and an annual audit shall be performed by an independent certified accountant selected by the ~~[state division of the budget]~~ authority, upon recommendation of its finance and audit committee. The authority shall submit annually to the governor, the state comptroller, the temporary president of the senate, the speaker of the assembly and the county executives and governing bodies of the counties of Suffolk and Nassau, a detailed report pursuant to the provisions of section two thousand eight hundred of ~~[title one of article nine of]~~ this chapter, which report shall be verified by the chairman of the authority. The authority shall comply with the provisions of sections two thousand eight hundred one, two thousand eight hundred two and two thousand eight hundred three of ~~[title one of article nine of]~~ this chapter.

§ 11. Section 1020-cc of the public authorities law, as amended by chapter 413 of the laws of 2011, is amended to read as follows:

§ 1020-cc. Authority subject to certain provisions contained in the state finance law, the public service law, the social services law and the general municipal law.

1. All contracts of the authority shall be subject to the provisions of the state finance law relating to contracts made by the state. The authority shall also establish rules and regulations with respect to providing to its residential gas, electric and steam utility customers those rights and protections provided in article two and sections one hundred seventeen and one hundred eighteen of the public service law and section one hundred thirty-one-s of the social services law. The authority shall conform to any safety standards regarding manual lockable disconnect switches for solar electric generating equipment established by the public service commission pursuant to subparagraph (ii) of paragraph (a) of subdivision five and subparagraph (ii) of paragraph (a) of subdivision five-a of section sixty-six-j of the public service law. The authority shall let contracts for construction or purchase of supplies, materials, or equipment pursuant to section one hundred three and paragraph (e) of subdivision four of section one hundred twenty-w of the general municipal law.

2. The authority and service provider shall provide to the state comptroller on March thirty-first and September thirtieth of each year a

report documenting each contract in excess of two hundred fifty thousand dollars per year entered into with a third party and related to management

and operation services associated with the authority's electric transmission and distribution system, including the name of the third party, the contract term and a description of services or goods to be procured, and post such report on each of their websites. All contracts entered into between the service provider and third parties are not subject to the requirements of subdivision one of this section.

§ 12. Paragraph (b) of subdivision 4 of section 94-a of the executive law, as amended by chapter 8 of the laws of 2012, is amended to read as follows:

- (b) The utility intervention unit shall have the power and duty to:
- (i) on behalf of the secretary, initiate, intervene in, or participate in any proceedings before the public service commission or the department of public service, to the extent authorized by sections three-b, twenty-four-a, seventy-one, eighty-four or ninety-six of the public service law or any other applicable provision of law, where he or she deems such initiation, intervention or participation to be necessary or appropriate;
 - (ii) represent the interests of consumers of the state before federal, state and local administrative and regulatory agencies engaged in the regulation of energy services; ~~and~~
 - (iii) accept and investigate complaints of any kind from Long Island power authority consumers, attempt to mediate such complaints where appropriate directly with such authority and refer complaints to the appropriate state or local agency authorized by law to take action with respect to such complaints~~[-]~~; and
 - (iv) hold regular forums in each of the service territories of the combination gas and electric corporations, as defined under section two of the public service law, and the Long Island power authority to educate consumers about utility-related matters and the regulatory process, opportunities to lower energy costs, including through energy efficiency and distributed generation, and other matters affecting consumers.

§ 13. Notwithstanding section 112 of the state finance law and notwithstanding any other provision of law to the contrary, including but not limited to any provision of law related to rebidding, letting or amending contracts of any amount, the Long Island Lighting Company dba LIPA is authorized to amend the operations services agreement, dated December 28, 2011, entered into with PSEG Long Island LLC, including Amendment Nos. 1 and 2 thereto, approved on June 27, 2012, solely by the following: (1) upon review and written recommendations made by the department of public service to the board of trustees of the Long Island power authority ("authority"), setting forth the reasons for and findings underlying such recommendations; and (2) adoption of a resolution by a majority of the authority's board of trustees.

§ 14. This act shall supersede the fifth project condition established in Resolution No. 97-LI-1 of the public authorities control board, dated July 16, 1997, related to the implementation of certain rate increases.

§ 15. Subdivision l of section 7208 of the education law, as amended by chapter 994 of the laws of 1971, is amended to read as follows:

l. The practice of engineering or land surveying, or using the title "engineer" or "surveyor" (i) exclusively as an officer or employee of a public service corporation by rendering to such corporation such services in connection with its lines and property which are subject to supervision with respect to the safety and security thereof by the

public service commission of this state, the interstate commerce commission or other federal regulatory body and so long as such person is thus actually and exclusively employed and no longer, or (ii) exclusively as an officer or

employee of the Long Island power authority or its service provider, as defined under section three-b of the public service law, by rendering to such authority or provider such services in connection with its lines and property which are located in such authority's service area and so long as such person is thus actually and exclusively employed and no longer;

§ 16. Repowering. If after the Long Island power authority, or its successor, determines, in accordance with the terms and conditions contained in the amended and restated power supply agreement ("A&R PSA"), dated October 10, 2012, between the authority and the owner of the legacy LILCO power generating facilities, that repowering any such generating facility is in the best interests of its ratepayers and will enhance the authority's ability to provide a more efficient, reliable and economical supply of electric energy in its service territory, consistent with the goal of improving environmental quality, the authority will exercise its rights under the A&R PSA related to repowering such facility, and shall enter into an agreement related to payments in lieu-of-taxes for a term commensurate with any power purchase agreement entered into related to such repowered facility, consistent with other such agreements related to generating facilities under contract to the authority in the service territory.

§ 17. This act shall take effect January 1, 2014; provided, however, that section twelve of this act shall take effect April 1, 2014, sections five, ten, eleven, thirteen, fourteen, fifteen and sixteen of this act shall take effect immediately; provided further that section thirteen of this act shall expire and be deemed repealed January 1, 2015; and provided further that the amendments to subdivision 6 of section 18-a of the public service law made by section two of this act shall not affect the repeal of such subdivision and shall be deemed repealed therewith.

PART B

Section 1. Legislative findings. The legislature hereby finds and determines:

1. On May 28, 1998, Long Island Power Authority (the authority) acquired all the capital stock and associated assets, including transmission and distribution (T&D) system assets of Long Island Lighting Company (LILCO) which does business as the retail electric utility on Long Island, New York under the name of LIPA. In connection with that acquisition, the authority took over ultimate responsibility for providing electric utility service to residential, commercial, industrial, nonprofit and governmental customers in the counties of Suffolk and Nassau and a portion of the county of Queens (hereinafter referred to as the "service area"). Such acquisition effectively converted LILCO from an investor-owned utility that was comprehensively regulated by the New York Public Service Commission (PSC) and the United States Federal Energy Regulatory Commission (FERC), to a municipal utility that is not comprehensively regulated either by the PSC or FERC.

2. Since May 28, 1998, neither the authority nor LIPA has directly operated or maintained the T&D system assets, provided electric service or billed and collected T&D rates from LIPA's customers; instead, the authority and LIPA have contracted out virtually all of these activities

to other companies. Most of these operations and service responsibilities have been contracted out to affiliates of a company now known as National Grid plc (National Grid), a multi-national electric and gas utility company organized under the laws of England and Wales pursuant to a management services agreement. Thus, while the LIPA name appears on customer bills as well as on service trucks and other equipment used in the service area,

affiliates of National Grid have been principally in charge of management and operation of the T&D system assets and providing electricity to consumers in the service area. The authority and LIPA have now contracted with affiliates of Public Service Enterprise Group and Lockheed Martin Services Inc. (PSEG-Lockheed) to provide operation and maintenance services for the T&D system assets for ten years starting January 1, 2014, when the National Grid contract expires.

3. High costs of electric utility service poses a serious threat to the economic well-being, health and safety of the residents of and the commerce and industry in the service area. High costs of electric utility service deter commerce and industry from locating in the service area and have caused existing commerce and industry to consider seriously moving out of the service area.

4. High debt and associated debt service contribute to the authority's high electric rates. The authority has approximately seven billion dollars in outstanding debt, a substantial portion of which was issued to refinance debt associated with construction of the now abandoned Shoreham nuclear power plant. The annual debt service associated with such bonds puts pressure on the authority's customer rates.

5. As of December 31, 2012, the three major rating agencies generally rated the authority's debt in the single-A range, though Moody's Investors Services assigns approximately seven hundred million dollars of the authority's debt slightly lower ratings of Baa1 and Baa2.

6. If securitized restructuring bonds were issued by a bankruptcy-remote entity with a AAA or equivalent rating in current market conditions to finance a portion of the costs of purchasing, redeeming or defeasing outstanding debt of the authority, and other associated costs, the debt service on the authority's debt could be reduced and the costs of electric utility service could be lowered.

7. Securitized restructuring bonds are likely to be most attractive to the investing public and result in the lowest possible yields if they are issued by a newly organized, special purpose public benefit corporation or other corporate municipal instrumentality of the state.

8. The purpose of this act is to provide a legislative foundation for the issuance of securitized restructuring bonds to refinance outstanding debt of the authority, a significant portion of which relates to LILCO's costs of constructing and financing the now abandoned Shoreham nuclear power plant, including the creation of restructuring property by the authority to provide for the redemption or defeasance of a portion of the outstanding debt of the authority. It is the intent of the legislature to authorize, for the purpose of reducing electric utility costs to consumers in the service area, the following: (a) the organization of a restructuring bond issuer as a special purpose corporate municipal instrumentality of the state, created for the limited purpose of issuing securitized restructuring bonds to purchase restructuring property to finance the cost of purchasing, redeeming or defeasing a portion of the outstanding debt of the authority and associated costs, which securitized restructuring bonds create no new financial obligations or liabilities for the authority or for the state; and (b) implementation of contracts with owners of the securitized restructuring bonds through a

statutory pledge and agreement that the state will not in any way take or permit any action to revoke, modify, impair, postpone, terminate or amend this act in any manner that is materially adverse to the owners of the restructuring bonds until those bonds are no longer outstanding and all

amounts due and owing under the related transaction documents have been paid in full.

9. Accordingly, the issuance of securitized restructuring bonds is expected to result in lower aggregate distribution and transmission charges and transition charges, compared to other available alternatives.

§ 2. Definitions. As used or referred to in this act, unless a differing meaning clearly appears from the context:

1. "Ancillary agreement" means any bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement or other similar agreement or arrangement entered into in connection with the issuance of restructuring bonds that is designed to promote the credit quality and marketability of such restructuring bonds or to mitigate the risk of an increase in interest rates.

2. "Approved restructuring costs" means, to the extent approved as such under a restructuring cost financing order,

(a) costs of purchasing, redeeming or defeasing a portion of outstanding debt of the authority, including bonds and notes issued by the authority, debt issued by the New York state energy research and development authority for the benefit of the LILCO;

(b) costs of terminating interest rate swap contracts and other financial contracts entered into by or for the benefit of the authority and related to debt obligations of the authority;

(c) rebate, yield reduction payments and any other amounts payable to the United States Treasury or to the Internal Revenue Service to preserve or protect the federal tax-exempt status of outstanding debt obligations of the authority; and (d) upfront financing costs associated with restructuring bonds.

3. "Assignee" means any individual, corporation, limited liability company, partnership or limited partnership, trust or other legally-recognized entity to which an interest in restructuring property is assigned, sold or transferred, other than as security, including any assignee of that party.

4. "Authority" means Long Island Power Authority, a corporate municipal instrumentality and political subdivision of the state.

5. "Consumer" means any individual, governmental body, trust, business entity, nonprofit organization or other legally-recognized entity that takes electric delivery service within the service area by means of electric transmission or distribution facilities, whether those electric transmission or distribution facilities are owned by LIPA or any other entity.

6. "Financing cost" means the costs to issue, service, or repay restructuring bonds, whether incurred upon issuance of such restructuring bonds or over the life of the restructuring bonds, and approved for recovery in a restructuring cost financing order. Without limitation, "financing cost" may include, as applicable, any of the following:

(a) principal, interest and redemption premiums payable on restructuring bonds;

(b) any payment required under an ancillary agreement and any amount required to fund or replenish a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to the restructuring bonds;

(c) any federal, state or local taxes, payments in lieu of taxes, franchise fees or license fees imposed on transition charge revenues; and

(d) any cost related to issuing restructuring bonds, administering the restructuring bond issuer and servicing restructuring property and

restructuring bonds, or related to the efforts to prepare or obtain approval of a restructuring cost financing order, including, without limitation, costs of calculating adjustments of transition charges, servicing fees and expenses, trustee fees and expenses, legal fees and expenses, accounting fees and expenses, administrative fees and expenses, placement fees, underwriting fees, fees and expenses of the authority's advisors and outside counsel, if any, rating agency fees and any other related cost that is approved for recovery in the restructuring cost financing order.

7. "Financing entity" means the restructuring bond issuer, the authority or any servicer, trustee, collateral agent, and other person or entity acting for the benefit of owners of the restructuring bonds, the restructuring bond issuer or the authority that may own restructuring property or have rights to receive proceeds of restructuring bonds or to receive proceeds from the sale of restructuring property.

8. "LIPA" means Long Island Lighting Company, currently doing business under the name of LIPA.

9. "Ongoing financing costs" means financing costs that are not upfront financing costs. Ongoing financing costs include: (a) principal, interest and redemption premiums payable on restructuring bonds; (b) any payment required under an ancillary agreement and any amount required to replenish a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to restructuring bonds; (c) any federal, state or local taxes, payments in lieu of taxes, franchise fees or license fees imposed on transition charge revenues; and (d) any cost related to administering the restructuring bond issuer and servicing restructuring property or restructuring bonds, including, without limitation, costs of calculating adjustments of transition charges, servicing fees and expenses, administrative fees and expenses, trustee fees and expenses, and legal fees and expenses, accounting fees and expenses, and rating agency fees, approved for recovery in the restructuring cost financing order. Ongoing financing costs shall include any excess of actual upfront financing costs over the estimate of upfront financing costs included in the principal amount of the restructuring bonds.

10. "Restructuring bond issuer" means the corporate municipal instrumentality of the state created under section four of this act.

11. "Restructuring bonds" means bonds or other evidences of indebtedness that are issued pursuant to an indenture or other agreement of the restructuring bond issuer under a restructuring cost financing order

(a) the proceeds of which are used, directly or indirectly, to recover, finance, or refinance approved restructuring costs, (b) that are directly or indirectly secured by, or payable from, restructuring property, and (c) that have a term no longer than thirty years.

12. "Restructuring cost financing order" means an order by the authority, adopted in accordance with this act, which approves the imposition and collection of transition charges, and the financing of approved restructuring costs and upfront financing costs through the sale of restructuring property and the issuance of restructuring bonds, and which includes a procedure to require periodic adjustments to transition charges to ensure the collection of transition charges sufficient to

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provide for the timely payment of scheduled debt service on the restructuring bonds and all other ongoing financing costs contemplated by the restructuring cost financing order.

13. "Restructuring property" means the property rights and interests created pursuant to this act, including, without limitation, the right, title, and interest: (a) in and to the transition charges established

pursuant to a restructuring cost financing order, as adjusted from time to time in accordance with the restructuring cost financing order; (b) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the transition charges or constituting transition charges that are the subject of a restructuring cost financing order, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected or maintained together with or commingled with other revenues, collections, claims, payments, money or proceeds; and (c) in and to all rights to obtain adjustments to the transition charges pursuant to the terms of the restructuring cost financing order. Restructuring property shall constitute a vested, presently existing property right notwithstanding the fact that the value of the property right will depend on further acts that have not yet occurred, including but not limited to, consumers remaining or becoming connected to the T&D system assets and taking electric delivery service, the imposition and billing of transition charges, or, in those instances where consumers are customers of LIPA or any successor owner of the T&D system assets, such owner performing certain services.

14. "Service area" means the geographical area within which LIPA provided electric distribution services as of the implementation date of this act.

15. "Servicer" means an entity authorized and required, by contract or otherwise, to impose, bill and collect transition charges, to prepare periodic reports regarding billings and collections of transition charges, to remit collections to the appropriate financing entity, and to provide other services contemplated by the restructuring cost financing order, which may include calculation of periodic adjustments to the transition charges or providing other services related to the restructuring property. Without limitation, LIPA or any successor owner of the T&D system assets, their agents or subcontractors, or any entity authorized to bill and collect T&D rates may be a servicer.

16. "Servicing fee" means, except to the extent otherwise specified in a restructuring cost financing order, the periodic amount paid pursuant to a servicing agreement, indenture or other such document to a servicer of restructuring property which amount shall approximate the estimated incremental cost of imposing, billing and collecting transition charges, preparing servicing reports and performing other customary servicing services required in connection with securitized bonds. A restructuring cost financing order may authorize a smaller fee payable to a successor servicer that is affiliated with a successor owner of the T&D system assets if the incremental cost of providing servicing services is less than LIPA's incremental costs. A restructuring cost financing order may authorize a larger fee payable to a successor servicer that is not affiliated with the owner of the T&D system assets or is not performing similar services with respect to the base rates of the owner of the T&D system assets if such larger fee is reasonably necessary to employ a reliable successor servicer.

17. "Successor regulator" means a regulatory department, commission or other instrumentality or subdivision of the state with jurisdiction to

regulate the T&D rates of LIPA or its successor as owner of the T&D system assets.

18. "Third-party biller" means any person or entity authorized, required or entitled to bill or collect transition charges or T&D rates other than the authority, LIPA or a successor owner of the T&D system assets, or a servicer.

19. "T&D rates" means rates and charges for electric transmission and distribution services in the service area. "T&D rates" shall not include charges for the generation or resale of electricity or any charges imposed to fund public purpose programs.

20. "T&D system assets" means the physically integrated system of electric transmission and distribution facilities (and other general property and equipment used in connection therewith) owned by LIPA as of the effective date of this act or thereafter acquired for use by LIPA or its successors in providing retail electric utility service to consumers in the service area.

21. "Transition charges" means those rates and charges relating to the T&D system assets that are separate and apart from base rates of LIPA or any successor owner of the T&D system assets and that are authorized in a restructuring cost financing order to recover from consumers the principal, interest and premium payable on restructuring bonds and the other ongoing financing costs associated with the restructuring bonds. As provided in paragraph (c) of subdivision 5 of section five of this act,

transition charges shall be imposed on all consumers in the service area and collected by LIPA or any successor owner of the T&D system assets, their agents, subcontractors, assignees, collection agents or any other entity designated under the restructuring cost financing order.

22. "Upfront financing costs" means the fees and expenses to issue restructuring bonds, including, without limitation, expenses associated with the efforts to prepare or obtain approval of a restructuring cost financing order, as well as the fees and expenses associated with the structuring, marketing, and issuance of restructuring bonds, including, without limitation, counsel fees, structural advisory fees, underwriting fees and original issue discount, rating agency and trustee fees (including fees of trustee's counsel), accounting and auditing fees, printing and marketing expenses, stock exchange listing fees and compliance fees, filing fees, any applicable taxes, payments in lieu of taxes, the amount required to fund a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to the restructuring bonds, and fees and expenses of the authority's advisors and outside counsel, if any. Upfront financing costs include reimbursement to any person of amounts advanced for payment of such costs. Upfront financing costs do not include scheduled debt service or other ongoing financing costs, to the extent such ongoing financing costs are payable from transition charge revenues. If any upfront financing costs cannot be reasonably determined before the principal amount of restructuring bonds is fixed, such financing costs shall be estimated and the aggregate of such estimates shall be included as an upfront financing cost for purposes of determining the principal amount of restructuring bonds to be issued. If the actual upfront financing costs are greater than the estimated upfront financing costs, the difference shall be deemed to be an ongoing financing cost; if the actual upfront financing costs are less than the estimated upfront financing costs, the proceeds corresponding to such difference shall be used to pay ongoing financing costs.

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§ 3. Procedure; judicial review. 1. Standard. The authority may prepare a restructuring cost financing order for the purpose of issuing restructuring bonds to refinance outstanding debt of the authority based on a finding that such bond issuance is expected to result in savings to consumers of electric transmission and distribution services in the service area on a net present value basis.

2. Public hearings. Notwithstanding any other provision of law to the

contrary, at any time after the effective date of this act, after making such finding, the authority shall schedule and hold one or more expedited public statement hearings on the proposed restructuring cost financing order. After the conclusion of such hearings and its review of any comments received, the authority shall finalize the restructuring cost financing order for submission to the board of trustees of the authority and to the public authorities control board ("PACB"). The PACB shall have the power and it shall be its duty to, upon receiving an application for approval of a restructuring cost financing order, within thirty days after receipt of such order, either approve, absent any conditions of approval, or disapprove such order based solely on the assumptions and conditions set forth in the restructuring cost financing order and whether such order complies with the standards set forth in this act. If the public authorities control board fails to approve or disapprove such restructuring cost financing order within such thirty day period, the PACB shall be deemed to have approved the restructuring cost financing order. If the board of trustees of the authority approves such restructuring cost financing order and the PACB approves or is deemed to have approved such restructuring cost financing order, the restructuring cost financing order shall become a final rate order by the authority.

3. Appeals. Because delay in the final determination of the petition will delay the issuance of restructuring bonds, thereby diminishing savings to consumers that might be achieved if the restructuring bonds were issued promptly after the issuance of the restructuring cost financing order, notwithstanding any other law to the contrary, any action, suit or proceeding to which the authority or the restructuring bond issuer may be a party, in which any question arises as to the validity of this act or any restructuring cost financing order, shall be preferred over all other civil causes in all courts of the state, except election matters, and shall be heard and determined in preference to all other civil business pending therein, except election matters, irrespective of position on the calendar. Such preference shall also be granted upon application of counsel to the authority in any action or proceeding questioning the validity of this act or any restructuring cost financing order in which such counsel may be allowed to intervene. Notwithstanding any other provision of law to the contrary, the validity of this act may only be challenged by an aggrieved party pursuant to an action, suit or proceeding filed within thirty days of the effective date of this act, and the validity of any restructuring cost financing order may only be challenged by an aggrieved party pursuant to an action, suit or proceeding filed within thirty days after such restructuring cost financing order becomes a final rate order by the authority; provided, however, that any such action, suit or proceeding and all supporting papers shall be filed directly to the Supreme Court, Appellate Division, Second Judicial Department.

4. Expiration of appeals. The authority shall provide written notification to the restructuring bond issuer upon the authority's determination that any and all actions, suits and proceedings challenging this

act and the final restructuring cost financing order have been denied or dismissed or the timing associated with the filing of such actions, suits and proceedings has lapsed or expired, and any related appeals have been exhausted or the timing related to such appeals has lapsed or expired.

5. Agreement to sell restructuring bonds. Within the time specified in

the restructuring cost financing order, after receiving notice from the authority that the time for petitions and appeals has lapsed or expired, the restructuring bond issuer shall enter into an agreement with one or more underwriters or purchasers satisfactory to the authority to sell the restructuring bonds in compliance with the restructuring cost financing order. No later than the third business day after the pricing of the restructuring bonds in accordance with such agreement, the initial servicer shall determine the initial transition charges and the expected savings to consumers in accordance with the restructuring cost financing order and shall file an issuance advice letter with the authority and the restructuring bond issuer setting forth the principal amount of restructuring bonds to be issued, the pricing, the net proceeds, the initial transition charges, the expected savings to consumers and any other information required by the restructuring cost financing order. No later than the end of the third business day after the filing of such issuance advice letter, the authority shall confirm in a notice to the restructuring bond issuer that such pricing complies with the restructuring cost financing order.

6. Issuance of restructuring bonds. Within ninety days after receiving notice of confirmation from the authority, the restructuring bond issuer shall issue the restructuring bonds, in one or more series or tranches and at one or more times, pursuant to the agreement to sell the restructuring bonds. The restructuring bond issuer shall purchase the restructuring property from the authority for a purchase price equal to the net proceeds from the sale of the restructuring bonds less any amounts of such proceeds required to fund or pay upfront financing costs.

7. Irrevocability. Upon the issuance of the restructuring bonds, the transition charges, including any adjustments thereof as provided in the restructuring cost financing order, shall be deemed established by the authority as irrevocable, final and effective without further action by the authority, or any other entity. The state, including the authority or any successor regulator, thereafter may not in any way take or permit any action to reduce, impair, postpone or terminate the transition charges approved in the restructuring cost financing order, as the same may be adjusted from time to time pursuant to subdivision 3 of section five of this act, or impair the restructuring property or the collection or recovery of transition charge revenues, including, but not limited to, either directly or indirectly by taking transition charges into account when setting other rates for any owner of the T&D system assets; nor shall the amount of revenues arising with respect to restructuring property be subject in any way to reduction, impairment, postponement, or termination.

8. Application of proceeds. The restructuring bond issuer shall cause the proceeds from its issuance of the restructuring bonds to be placed in one or more separate accounts and used only to pay or fund upfront financing costs and to purchase the restructuring property from the authority. The authority shall cause the proceeds from its sale of restructuring property to be placed in one or more separate accounts and used only to pay approved restructuring costs, and if funds remain in those accounts after the payment of all approved restructuring costs, to

make a refund or credit to consumers on the same basis that transition charges are then being imposed, to the extent such a refund or credit is practical.

§ 4. Creation of restructuring bond issuer. 1. Creation of restructuring bond issuer. For the purpose of effectuating the purposes

declared in section one of this act, there is hereby created a special purpose corporate municipal instrumentality of the state to be known as "utility debt securitization authority", which shall be a body corporate and politic, a political subdivision of the state, and a public benefit corporation, exercising essential governmental and public powers for the good of the public. The restructuring bond issuer shall not be created or organized, and its operations shall not be conducted, for the purpose of making a profit. No part of the revenues or assets of the restructuring bond issuer shall inure to the benefit of or be distributable to its trustees or officers or any other private persons, except as herein provided for actual services rendered.

2. Activities limited to issuing restructuring bonds and related activities.

(a) The restructuring bond issuer is hereby authorized to:

(i) issue the restructuring bonds contemplated by a restructuring cost financing order, and use the proceeds thereof to purchase or acquire, and to own, hold and use restructuring property or to pay or fund upfront financing costs provided, however, that the restructuring bond issuer shall only issue and sell restructuring bonds once;

(ii) contract for servicing of restructuring property and restructuring bonds and for administrative services; and

(iii) pledge the restructuring property to secure the restructuring bonds and the payment of ongoing financing costs, all pursuant to section seven of this act.

(b) So long as any restructuring bonds remain outstanding, the restructuring bond issuer shall not be authorized to merge or consolidate, directly or indirectly, with any person or entity. Additionally, the restructuring bond issuer shall not have the power or authority to incur, guarantee or otherwise become obligated to pay any debt or other obligations other than the restructuring bonds and financing costs unless otherwise permitted by the restructuring cost financing order. The restructuring bond issuer shall keep its assets and liabilities separate and distinct from those of any other entity.

(c) The restructuring bond issuer shall have no additional authority to engage in other business activities; provided, however, that in connection with the powers specified in paragraph (a) of subdivision 2 of this section, as a financing entity, the restructuring bond issuer shall have the power to:

(i) sue and be sued;

(ii) have a seal and alter the same at pleasure;

(iii) make and alter by-laws for its organization and internal management and make rules and regulations governing the use of its property;

(iv) make and execute contracts and all other instruments necessary or convenient for the exercise of its powers and functions under this act and to commence any action to protect or enforce any right conferred upon it by any law, contract or other agreement, including, without limitation, make and execute contracts with the authority, LIPA or any successor owner of the T&D system assets, any servicers, any financing entity or any other public or private entities to service restructuring property owned by restructuring bond issuer, to service restructuring bonds issued by restructuring bond issuer, and to provide services in

administering the restructuring bond issuer, and to pay compensation for such services;

(v) appoint officers, agents and employees, prescribe their duties and qualifications, fix their compensation and engage the services of

private consultants, accountants, counsel and others on a contract basis for rendering professional and technical assistance and advice;

(vi) pay its operating expenses, scheduled debt service on the restructuring bonds and other ongoing financing costs;

(vii) issue restructuring bonds and provide for the rights of the holders thereof;

(viii) procure insurance against any loss in connection with its activities, properties and assets in such amount and from such insurers as it deems desirable;

(ix) invest any funds or other moneys under its custody and control in investment securities or under any ancillary agreement;

(x) establish and maintain such reserves, special funds and accounts, to be held in trust or otherwise, as may be required by agreements made in connection with the restructuring bonds, or any agreement between itself and third parties;

(xi) as security for the payment of the principal of and interest on any restructuring bonds issued by it pursuant to this act, and any agreement made in connection therewith, pledge all or any part of its revenues or assets, including, without limitation, restructuring property, unspent proceeds of its restructuring bonds, transition charge revenues, and earnings from the investment and reinvestment of unspent proceeds of its restructuring bonds and transition charge revenues; and

(xii) do any and all things necessary or convenient to carry out its purposes and exercise the powers expressly given and granted in this section.

3. No authority to file for bankruptcy protection. The restructuring bond issuer shall not be authorized to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code. No governmental officer or organization is empowered to authorize, whether by executive order or otherwise, restructuring bond issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code. Until at least one year and one day after all restructuring bonds issued by restructuring bond issuer have ceased to be outstanding and all unpaid financing costs have been paid, the state hereby pledges, contracts and agrees with owners of restructuring bonds issued by restructuring bond issuer that the state will not limit or alter the denial of authority to the restructuring bond issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code.

4. Governance. The restructuring bond issuer shall be governed by a board consisting of three trustees appointed by the governor. The trustees shall not be trustees, directors, officers, or employees of the authority, LIPA or any successor owner of the T&D system assets.

(a) One of the trustees first appointed shall serve for a term ending four years from January first next succeeding his appointment; one of such trustees shall serve for a term ending five years from such date; and one of such trustees shall serve for a term ending six years from such date. Their successors shall serve for terms of six years each. Trustees shall continue in office until their successors have been appointed and qualified and the provisions of section 39 of the public officers law shall apply. In the event of a vacancy occurring in the

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office of a trustee by death, removal, resignation or otherwise, the Governor shall appoint a successor to serve for the balance of the unexpired term.

(b) Trustees shall serve without salary or other compensation, but each trustee shall be entitled to reimbursement for actual and necessary expenses incurred in the performance of his or her official duties.

(c) A majority of the trustees shall constitute a quorum for the transaction of any business or the exercise of any power or function of restructuring bond issuer. Any one or more trustees may participate in a meeting of the board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting. The board may delegate to one or more of its trustees, or officers, agents and employees, such powers and duties as the board may deem proper.

(d) Such trustees may engage in private employment, or in a profession or business. Restructuring bond issuer, its trustees, officers and employees shall be subject to the provisions of sections 73 and 74 of the public officers law.

(e) Notwithstanding any inconsistent provision of law to the contrary, general, special or local, no officer of the state or of any civil division thereof shall be deemed to have forfeited or shall forfeit his or her office or employment by reason of his or her acceptance of an appointment as trustee of restructuring bond issuer.

(f) The governor may remove any trustee for inefficiency, neglect of duty or misconduct in office after giving him or her a copy of the charges against him or her and an opportunity to be heard, in person or by counsel, in his or her defense, upon not less than ten days notice. If any trustee shall be so removed, the governor shall file in the office of the department of state a complete statement of the charges made against such trustee and his or her findings thereon, together with a complete record of the proceedings.

(g) Each trustee shall have a fiduciary duty to act in the best interests of the restructuring bond issuer, including its creditors, the owners of the restructuring bonds, and such other duties as may be specified in the organizational documents or other agreements of the restructuring bond issuer.

(h) The restructuring bond issuer and its corporate existence shall continue until one year and one day after all restructuring bonds and ongoing financing costs and other indebtedness of restructuring bond issuer have been actually paid and all its other liabilities and obligations have been paid, met or otherwise discharged. Upon termination of the existence of restructuring bond issuer, all of its rights and property shall pass to and be vested in the state.

§ 5. Restructuring cost financing orders. 1. Content of restructuring cost financing orders. The restructuring cost financing order shall include the following: (i) a description of the approved restructuring costs; (ii) the amount of approved restructuring costs that the authority proposes to pay through the sale of the restructuring property and the issuance of the restructuring bonds; (iii) designation of the authority as the entity in which initial ownership of restructuring property will vest; (iv) an estimate of the date on which restructuring bonds will be issued and the expected scheduled term to maturity of the restructuring bonds; (v) a description of the estimated debt service on the restructuring bonds and other ongoing financing costs that may be recovered through transition charges; as part of this description, the

restructuring cost financing order may include qualitative or quantitative limitations on financing costs approved to be recovered provided

that no such limitation on financing costs shall impair the ability of the restructuring bond issuer to pay and service the restructuring bonds in accordance with their terms; (vi) a proposed methodology for allocating transition charges on an equal percentage basis among customer service classifications and among volumetric (kWh) and demand (kW) charges within those customer service classifications, along with an associated bill impact analysis of the proposed methodology; (vii) a description of the proposed adjustment mechanism to reconcile actual collections with forecasted collection on at least an annual basis and a finding that the adjustment mechanism is just and reasonable; (viii) a description of the benefits to consumers in the service area that are expected to result from the sale of the restructuring property and the issuance of restructuring bonds as opposed to traditional alternative financing mechanisms; (ix) specifying the entity that will contract to act as servicer with respect to the restructuring property and the restructuring bonds on terms and conditions mutually acceptable to such servicer and the restructuring bond issuer; (x) specifying the entity or entities that will contract to provide administrative or other services to the restructuring bond issuer; (xi) specifying when the restructuring property will be created and vest and addressing such other matters as may be necessary or desirable for the marketing or servicing of the restructuring bonds or the servicing of the restructuring property; (xii) authorizing the imposition, billing and collection of transition charges to pay debt service on the restructuring bonds and other ongoing financing costs; (xiii) a description of the restructuring property that will be created and that may be used to pay and secure the payment of the restructuring bonds approved to be issued in the restructuring cost financing order; (xiv) a requirement that the amounts in the debt service reserve accounts or other accounts funded with the proceeds of restructuring bonds or transition charges be fully used, to the extent practical, to make the final payments of principal and interest on the restructuring bonds and other ongoing financing costs or to make refunds to consumers on the same basis as such consumers would have then been obligated to pay transition costs; and (xv) the finding required by subdivision 1 of section 3 of this act.

2. Periodic reports. A restructuring cost financing order shall require the restructuring bond issuer or the servicer to file at least annually with the authority and the appropriate financing entity a periodic report showing the billing and collection of transition charges, the application of transition charge revenues to debt service on the restructuring bonds and other ongoing financing costs, and the balances in any debt service reserve accounts or other accounts required by the restructuring cost financing order.

3. Adjustment mechanism.

(a) Each restructuring cost financing order shall include a mathematical formula for making periodic adjustments to the transition charges. The mathematical formula shall apply the following principles:

(i) The transition charges will be adjusted at least annually to ensure that the collections of transition charges are adequate to pay principal and interest on the associated restructuring bonds when due pursuant to the expected amortization schedule, to fund all debt service reserve accounts to the required levels and to pay when due all other expected ongoing financing costs.

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(ii) The adjustments of transition charges will take into account historical and reasonably foreseeable differences between amounts billed

and amounts collected due to applicable taxes, consumer defaults and delays, billing lags, write-offs and other factors.

(iii) The adjustments of transition charges will take into account historical and reasonably foreseeable variations in billings due to variations in electricity consumption associated with the seasons, storms and other weather conditions, outages, gain or loss of consumers, efficiencies, electric vehicles, economic conditions or other factors.

(iv) The adjustments of transition charges will take into account any over-collection or under-collection of transition charges so that, to the extent practical, the outstanding balance of restructuring bonds is equal to the scheduled balance on the expected amortization schedule, the amounts in the debt service reserve accounts are equal to the required reserve level, and all ongoing financing costs are paid when due.

(v) The adjustments of transition charges will be applied ratably to the transition charges for each customer service classification.

(b) Once restructuring bonds have been issued, the adjustment mechanism specified in the restructuring cost financing order shall be applied to correct for any over-collection or under-collection of transition charges and to provide for timely payment of scheduled principal of and interest on the restructuring bonds and the payment and recovery of other ongoing financing costs in accordance with the restructuring cost financing order. Application of the adjustment mechanism shall occur at least annually or more frequently as provided in the restructuring cost financing order. A notice of such periodic adjustment of transition charges shall be filed with the authority by or on behalf of the owner of restructuring property and a copy shall be provided to the owner of the T&D system assets at least sixty days before the adjustment is to take effect, provided that the restructuring bond issuer may request an earlier effective date.

(c) Each adjustment to the transition charge, in amounts as calculated by or on behalf of the owner of restructuring property, shall automatically become effective sixty days following the date on which the notice of periodic adjustment is filed with the authority unless the authority approves an earlier effective date requested by the restructuring bond issuer.

(d) Notwithstanding any other provision of law to the contrary, the authority shall allow interested parties thirty days from the date of filing of the notice for adjustment within which to make comments. Such comments shall be limited to the mathematical accuracy of the calculations of the amount of the adjustments. If the authority determines that the calculation of the transition charge adjustment in the notice was mathematically inaccurate, the transition charge adjustment shall be changed as soon as it is reasonably practical to do so, but estimated overcollections or undercollections resulting from the mathematical error shall be taken into account in the next succeeding periodic adjustment.

(e) No adjustment pursuant to this section shall in any way affect the irrevocability of the restructuring cost financing order as specified in subdivision 4 of section five of this act. No adjustment pursuant to this section shall require any approvals or action under any other law or shall be deemed to be the establishment of a new charge, fee or rate under any law.

4. Irrevocability of restructuring cost financing orders.

(a) A restructuring cost financing order shall be an irrevocable final

rate order when the time for any actions, suits, proceedings and appeals challenging such final restructuring cost financing order has lapsed or expired as provided in subdivision 3 of section three of this act.

(b) A restructuring cost financing order may be amended on or after the date of issuance of restructuring bonds approved thereunder only: (i) at the request of the authority; (ii) in accordance with any restrictions and limitations on amendment set forth in the restructuring cost financing order; (iii) subject to the limitations set forth in subdivision 7 of section three of this act; and (iv) upon approval by the PACB within thirty days of receipt of such amendment; provided, however, that if no approval or disapproval is made within such time, the amendment shall be deemed approved.

(c) This act, and any restructuring cost financing order made pursuant to this act, shall not be interpreted to alter or limit the rights vested in the authority to establish sufficient T&D rates to pay and perform all of its obligations and contracts with the authority's bondholders and others when due.

5. Effect of restructuring cost financing order.

(a) A restructuring cost financing order shall remain in effect and unabated until the restructuring bonds issued pursuant to the restructuring cost financing order have been paid in full and all ongoing financing and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(b) A restructuring cost financing order shall remain in effect and unabated notwithstanding the bankruptcy, reorganization or insolvency of the authority, the restructuring bond issuer, LIPA or any successor owner of the T&D system assets, or any affiliate of the aforementioned, or the commencement of any judicial or nonjudicial proceeding therefor.

(c) For so long as restructuring bonds issued pursuant to a restructuring cost financing order are outstanding, and the related approved restructuring costs have not been paid in full, the transition charges authorized in the restructuring cost financing order shall be non-bypassable and shall apply to all consumers connected to the T&D system assets and taking electric delivery service located within the service area, whether or not the consumers produce their own electricity or purchase electric generation services from a provider of electric generation services other than the owner of the T&D system assets and whether or not the T&D system assets continue to be owned by LIPA.

§ 6. Restructuring bonds. 1. No recourse. Restructuring bonds shall be without recourse to the credit or any assets of the authority, LIPA and the restructuring bond issuer, other than the restructuring property and other assets and revenues of restructuring bond issuer as specified in the pertinent restructuring cost financing order.

2. Exemption from taxation.

(a) It is hereby found and declared that the activities of the restructuring bond issuer are primarily for the benefit of the people of the state of New York, for the improvement of their welfare and prosperity, and is a public purpose, and the restructuring bond issuer shall be regarded as performing an essential governmental function in carrying out the provisions of this act.

(b) The restructuring bond issuer shall not be required to pay taxes or assessments upon any of the property acquired or controlled by it or upon its activities in the use thereof or upon income derived therefrom.

(c) Restructuring bonds, their transfer and the income therefrom shall, at all times, be free from taxation by the state or any municipi-

pality, except for estate and gift taxes.

3. Restructuring bonds not debt of the state. Restructuring bonds issued pursuant to a restructuring cost financing order and the provisions of this act shall not constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the state or of any county, municipality or any other political subdivision, agency or instrumentality of the state. Holders of restructuring bonds shall not be taxed by the legislature or the taxing authority of any county, municipality or any other political subdivision, agency or instrumentality of this state for the payment of the principal thereof or interest thereon. The issuance of restructuring bonds does not obligate the state or any county, municipality or any other political subdivision, agency or instrumentality of the state to levy any tax or make any appropriation for payment of the principal of or interest on the restructuring bonds. All restructuring bonds must contain a statement to the following effect: "Neither the full faith and credit nor the taxing power of the state of New York is pledged to the payment of the principal of, or interest on, this bond."

4. Restructuring bonds as legal investments. Any restructuring bonds issued by the restructuring bond issuer are hereby made securities in which all public officers and bodies of this state and all municipalities, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all trusts, estates and guardianships and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of this state, may properly and legally invest funds, including capital in their control or belonging to them. The restructuring bonds are also hereby made securities which may be deposited with and shall be received by all public officers and bodies of the state and all municipalities for any purpose for which the deposit of bonds or other obligations of the state is now or may hereafter be authorized.

§ 7. Restructuring property. 1. (a) Restructuring property that is created pursuant to a restructuring cost financing order shall constitute an existing, present property right, notwithstanding the fact that the imposition and collection of transition charges will depend on further acts that have not yet occurred, including but not limited to: (i) LIPA or any successor owner of the T&D system assets delivering electric energy or related services, (ii) a servicer performing servicing functions relating to the collection of transition charges, or (iii) the level of future consumption of electric energy. Restructuring property shall exist whether or not transition charges have been imposed, billed, accrued or collected and notwithstanding the fact that the value or amount of the restructuring property is dependent on the future provision of service to customers by LIPA or any successor owner of the T&D system assets.

(b) All restructuring property created pursuant to a restructuring cost financing order shall continue to exist until the restructuring bonds issued pursuant to such restructuring cost financing order are paid in full and all ongoing financing costs relating to the restructuring bonds have been paid in full.

(c) The restructuring property may be transferred, sold, conveyed or assigned to the restructuring bond issuer. All or any portion of

restructuring property may be pledged to secure the payment of restructuring bonds, amounts payable to financing parties, amounts payable to holders of restructuring bonds, amounts payable under any ancillary agreement and other ongoing financing costs. So long as the restructuring property remains pledged to secure the restructuring bonds, revenues from the collection of transition charges shall be applied solely to the repayment of restructuring bonds and other ongoing financing costs. After the occurrence of an event of default with respect to the restructuring bonds, all or any portion of restructuring property may be transferred, sold, conveyed or assigned to any person or entity. Any transfer, sale, conveyance, assignment, grant of a security interest in or pledge of restructuring property by the authority, the restructuring bond issuer, or other financing entity, to the extent previously approved in a restructuring cost financing order, does not require the prior consent and approval of any other person or entity under the public service law or any other law.

(d) If the owner of the T&D system assets, servicer, third-party biller, or any other person or entity authorized to collect transition charges, defaults on any required remittance of transition charge revenues, any court in the state, upon application by an interested party and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the transition charge revenues for the benefit of the owners or pledgees of restructuring property. The order shall remain in full force and effect notwithstanding any bankruptcy, reorganization, or other insolvency proceedings with respect to a servicer, authority, LIPA or any successor owner of the T&D system assets or any affiliate thereof or of any other person or entity.

(e) Restructuring property, transition charges, transition charge revenues, and the interests of an assignee, bondholder, financing party or any other person in restructuring property or in transition charge revenues, are not subject to setoff, counterclaim, surcharge or defense by a servicer, any consumer, the authority, LIPA or any successor owner of the T&D system assets or any other person or in connection with any default, bankruptcy, reorganization or other insolvency proceeding of the authority, LIPA or any successor owner of the T&D system assets, any affiliate thereof or any other entity or otherwise. To the extent that any consumer makes a partial payment of a bill containing both transition charges and any other charges, such payment shall be allocated pro rata between the transition charges and the other charges unless the consumer specifies that a greater proportion of such payment is to be allocated to the transition charges, except that the other charges shall be reduced by the amount of any claims of setoff, counterclaim, surcharge or defense for purposes of such allocation.

(f) Any successor owner of the T&D system assets and any successor servicer shall be bound by the requirements of this act and shall perform and satisfy all obligations of a servicer in the same manner and to the same extent under a restructuring cost financing order as did LIPA and the initial servicer, including, without limitation, the obligation to impose, bill and collect the transition charges and to pay such collections to the person entitled to receive the transition charge revenues.

2. Security interests. Any pledge of restructuring property or proceeds thereof, including any moneys, revenues or property or of a revenue producing contract or contracts constituting part of the

restructuring property, made by the owner of restructuring property,

shall be perfected, valid and binding from the time when the pledge is made. The proceeds, moneys, revenues or proceeds so pledged and thereafter received by the owner of restructuring property shall immediately be subject to the lien of such pledge, and such lien shall be perfected, without any physical delivery thereof or further act. The lien of any such pledge shall be perfected, valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the owner of restructuring property irrespective of whether such parties have notice thereof and shall be superior to any judicial liens or other liens obtained by such claimants or transferees. The description of the restructuring property in a pledge or security agreement and any financing statement is sufficient if and only if the description refers to this Act and the restructuring cost financing order creating such restructuring property. No instrument by which a pledge or lien is created pursuant to this subdivision need be recorded in order to perfect such pledge or lien. However, the restructuring bond issuer shall cause a financing statement describing the pledge and referring to the restructuring cost financing order and the restructuring property described therein to be filed for informational purposes only under article 9 of the uniform commercial code. The secretary of state shall maintain any financing statement filed under this section in the same manner that the secretary maintains financing statements filed by transmitting utilities under section 9-501 of the uniform commercial code until a termination statement is filed. A pledge of restructuring property is a continuously perfected security interest and has priority over any other lien, created by operation of law or otherwise, that may subsequently attach to that restructuring property or proceeds thereof unless the holder of any such lien has agreed in writing otherwise. Any pledgee of restructuring property shall have a perfected security interest in the amount of all restructuring property revenues or other proceeds that are deposited in any deposit account or other account of the servicer or other entity in which restructuring property revenues or other proceeds have been commingled with other funds. Any other security interest that may apply to restructuring revenues or other proceeds shall be terminated when such revenues or proceeds are transferred to a segregated account for an assignee or a financing party. No application of the adjustment mechanism as described in this act shall affect the validity, perfection, or priority of a pledge of, security interest in or the sale or transfer of restructuring property.

3. Sales of restructuring property.

(a) A transfer of all or any portion of restructuring property, which the parties in the governing documentation have expressly stated to be a sale or other absolute transfer, in a transaction approved in a restructuring cost financing order, shall be treated as an absolute transfer of all of the transferor's right, title, and interest (as in a true sale), and not as a pledge or other financing, of the restructuring property, other than for federal, state and local income and franchise tax purposes.

(b) Any transfer of an interest in restructuring property shall be perfected, vested, valid and binding from the time when the transfer is made. Such transfer shall be perfected, vested, valid and binding as against the transferor, all parties having claims of any kind in tort, contract or otherwise against the transferor, and all other transferees of the transferor, irrespective of whether such parties have notice thereof and shall be superior to any judicial liens or other liens

obtained by such claimants or transferees. The description of the restructuring property in a sale or transfer agreement and any financing statement is sufficient if and only if the description refers to this act and the restructuring cost financing order creating such restructuring property. No instrument by which a transfer is created pursuant to this section need be recorded in order to perfect such transfer. However, the restructuring bond issuer shall cause a financing statement describing the pledge and referring to the restructuring cost financing order and the restructuring property described therein to be filed for informational purposes only under article nine of the uniform commercial code. The secretary of state shall maintain any financing statement filed under this section in the same manner that such secretary maintains financing statements filed by transmitting utilities under section 9-501 of the uniform commercial code until a termination statement is filed.

(c) The characterization of the sale, assignment or transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the purchaser, shall not adversely be affected or impaired by, among other things, the occurrence of any of the following factors: (i) commingling of revenues or other proceeds from transition charges with other amounts; (ii) the retention by the seller of: (A) a partial or residual interest, including an equity interest, in the restructuring property, whether direct or indirect, or whether subordinate or otherwise; or (B) the right to recover costs associated with taxes, payments in lieu of taxes, franchise fees or license fees imposed on the collection of transition charges; (iii) any recourse that the purchaser may have against the seller; (iv) any indemnification rights, obligations or repurchase rights made or provided by the seller; (v) the obligation of the seller to collect transition charges on behalf of an assignee, including but not limited to, any retention by the seller to bare legal title for the purpose of collecting transition charges; (vi) the treatment of the sale, assignment or transfer for tax, financial reporting or other purposes; (vii) any subsequent order of the authority amending a restructuring cost financing order pursuant to paragraph (b) of subdivision 4 of section five of this act; or (viii) any application of the adjustment mechanism as provided in subdivision 3 of section five of this act.

(d) An assignee or financing party shall not be considered to be a public utility or person providing electric service solely by virtue of the transactions described in this act.

§ 8. Rights and duties while restructuring bonds are outstanding. 1. Responsibilities of the authority. (a) For the purpose of investigating compliance with the provisions of this act and the applicable restructuring cost financing order, the authority shall have the right, jurisdiction, power and authority to examine the books and records of LIPA or any successor owner of the T&D system assets, the restructuring bond issuer, any other financing entity, any servicer, any third-party biller and any other person or entity that owns restructuring property or has the right to impose, bill or collect transition charges until the restructuring bonds issued pursuant to the restructuring cost financing order have been paid in full and all financing costs relating to such restructuring bonds have been paid in full.

(b) Neither the authority nor any successor regulator may, in exercising its powers and carrying out its duties regarding regulation and ratemaking, consider restructuring bonds issued pursuant to the restructuring cost financing order to be the debt of any owner of the T&D

system assets, consider transition charges paid under the restructuring cost financing order to be revenue of any owner of the T&D system assets, or consider the approved restructuring costs or ongoing financing costs specified in the restructuring cost financing order to be costs of any owner of the T&D system assets or any affiliate, nor may the authority or any successor regulator determine that any action taken by any owner of the T&D system assets that is consistent with the restructuring cost financing order is unjust or unreasonable from a regulatory or ratemaking perspective; provided that, subject to the limitations set forth in subdivision 4 of section five of this act and the state pledge in section nine of this act, nothing in this subdivision shall (i) affect the authority to apply the adjustment mechanism as provided in subdivision 3 of section five of this act; (ii) prevent or preclude the authority from investigating the compliance of any owner of the T&D system assets and of any financing entity with the terms and conditions of a restructuring cost financing order and requiring compliance therewith; or (iii) prevent or preclude the authority or any successor regulator from imposing regulatory sanctions against any owner of the T&D system assets for failure to comply with the terms and conditions of a restructuring cost financing order or the requirements of this act. When setting other rates for any owner of the T&D system assets, nothing in this act shall prevent the authority or any successor regulator from taking into account the collection by such owner of servicing fees in excess of incremental costs of providing servicing services, or the collection by such owner of administration fees in excess of incremental costs of providing administration services; provided that this would not result in a recharacterization of the tax, accounting, and other intended characteristics of the financing, including, but not limited to, either of the following: (i) treating restructuring bonds as debt for federal income tax purposes; or (ii) treating any transfer of the restructuring property to the restructuring bond issuer or to any other financing entity as a true sale for bankruptcy purposes.

2. Duties of financing entities and any owner of T&D system assets.

(a) Any failure of any financing entity to apply the proceeds of restructuring bonds, or proceeds from the sale of restructuring property, in a reasonable, prudent and appropriate manner or otherwise comply with any provision of this act shall not invalidate, impair or affect any restructuring cost financing order, restructuring property, transition charge, or restructuring bonds.

(b) Any owner of T&D system assets, any servicer, any third-party biller and any other entity that bills or collects T&D rates shall simultaneously impose, bill and collect any transition charges applicable to consumers in the service area, including all consumers connected to the T&D system assets and taking electric delivery service located within the service area, shall allocate partial payments by consumers as provided in this act, shall terminate service to non-paying consumers on the same basis as termination of service is permitted for non-payment of T&D rates, shall exercise all enforcement rights of the owner or pledgee of the restructuring property for the benefit of such owner or pledgee, and shall remit any transition charge revenue to the owner or pledgee of the restructuring property.

§ 9. State pledge. (a) The state pledges to and agrees with the holders of restructuring bonds, any assignee and all financing entities that the state will not in any way take or permit any action that limits, alters or impairs the value of restructuring property or, except as

required by the adjustment mechanism described in the restructuring cost financing order, reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(b) Any person who issues restructuring bonds is permitted to include the pledge specified in subdivision (a) of this section in the restructuring bonds, ancillary agreements and documentation related to the issuance and marketing of the restructuring bonds.

§ 10. Choice of law. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to the transfer of an interest or right or creation of a security interest in any restructuring property, transition charge or restructuring cost financing order, shall be the laws of the state of New York.

§ 11. Conflicts. In the event of conflict between this act and any other law regarding the attachment, assignment or perfection, or the effect of perfection, or priority of any pledge of, security interest in or transfer of restructuring property, this act shall govern to the extent of the conflict. In the event of conflict between this act and the public service law, the Long Island power authority act or any other law, this act shall govern to the extent of the conflict. Notwithstanding any provisions of law to the contrary, no approvals, notices or authorizations other than those specified in this act shall be required with respect to any restructuring cost financing order, and the transactions and contracts authorized in or contemplated by this act or any restructuring cost financing order, including but not limited to the incurrence and payment of any financing costs, the incurrence or payment of any approved restructuring costs, the issuance of restructuring bonds, the sale or other transfer of restructuring property, and any contracts and expenses incurred to facilitate the preparation of any restructuring cost financing order.

§ 12. Effect of invalidity on actions. Effective on the date that restructuring bonds are first issued under this act, if any provision of this act is held to be invalid or is invalidated, superseded, replaced, repealed or expires for any reason, that occurrence shall not affect any action allowed under this act that is taken by the authority, LIPA, the restructuring bond issuer, any owner of T&D system assets, an assignee, a collection agent, a financing party, a holder of restructuring bonds or a party to an ancillary agreement and any such action shall remain in full force and effect.

§ 13. Effectiveness of the act. The authority may not adopt its first restructuring cost financing order after the five year period after the effective date of this act.

§ 14. Severability. If any section, subdivision, paragraph or subparagraph of this act or the application thereof to any person, circumstance or transaction is held by a court of competent jurisdiction to be unconstitutional or invalid, the unconstitutionality or invalidity shall not affect the constitutionality or validity of any other section, subdivision, paragraph or subparagraph of this act or its application or validity to any person, circumstance or transaction, including, without limitation, the irrevocability of a restructuring cost financing order

ing bonds, the imposition of transition charges, the transfer or assignment of restructuring property or the collection and recovery of revenues from transition charges. To these ends, the legislature hereby declares that the provisions of this act are intended to be severable and that the legislature would have enacted this act even if any section, subdivision, paragraph or subparagraph of this act held to be unconstitutional or invalid had not been included in this act.

§ 15. Standing. (a) The owner of restructuring property, or the trustee representing holders of restructuring bonds, shall be expressly permitted hereby to bring actions against any owner of the T&D system assets, any third-party biller, or any other entity authorized to bill or collect T&D rates, any consumers in the service area or any other person or entity for failure to impose, bill, pay or collect any transition charges constituting part of the restructuring property then held pledged as security for such restructuring bonds or for enforcement of any other provision of this act or the applicable restructuring cost financing order.

(b) Except as provided in section three of this act, any court and the authority shall have jurisdiction over any actions for failure to impose, bill, pay or collect any transition charges or for enforcement of other provision of this act or any restructuring cost financing order.

§ 16. Third-party billing. If and to the extent that third parties are allowed to bill and/or collect any transition charges, the authority, any successor regulator, and any owner of the T&D system assets will take steps to ensure non-bypassability and minimize the likelihood of default by third-party billers, which generally would include (i) operational standards and minimum credit requirements for any such third-party biller, or require a cash deposit, letter of credit or other credit mitigant in lieu thereof, to minimize the likelihood that defaults by a third-party biller would result in an increase in transition charges thereafter billed to consumers, (ii) a finding that, regardless of who is responsible for billing, consumers shall continue to be responsible for transition charges, (iii) if a third party meters and bills for the transition charges, that the owner of the T&D system assets and any servicer must have access to information on billing and usage by consumers to provide for proper reporting to the restructuring bond issuer and to perform its obligations as servicer, (iv) in the case of a default by a third-party biller, billing responsibilities must be promptly transferred to another party to minimize potential losses, and (v) the failure of consumers to pay transition charges shall allow service termination by the owner of the T&D system assets on behalf of the restructuring bond issuer of the consumers failing to pay transition charges in accordance with service termination rules and orders applicable to T&D rates. Any costs associated with such third-party billing and/or collection shall be included as part of the recoverable ongoing financing costs or other rates or charges, as appropriate. Further, the authority and any successor regulator shall not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the then current ratings on any tranche or series of the restructuring bonds by any nationally recognized statistical rating organization designated by the restructuring bond issuer.

§ 17. This act shall take effect immediately.

§ 2. Severability clause. If any clause, sentence, paragraph, subdivi-

sion, section or part of this act shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not take
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affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, subdivision, section or part thereof directly involved in the controversy in which such judgment shall have been rendered. It is hereby declared to be the intent of the legislature that this act would have been enacted even if such invalid provisions had not been included herein.

§ 3. This act shall take effect immediately; provided, however, that the applicable effective date of Parts A through B of this act shall be as specifically set forth in the last section of such Parts.

The Legislature of the STATE OF NEW YORK ss:

Pursuant to the authority vested in us by section 70-b of the Public Officers Law, we hereby jointly certify that this slip copy of this session law was printed under our direction and, in accordance with such section, is entitled to be read into evidence.

DEAN G. SKELOS
Temporary President of the Senate

SHELDON SILVER
Speaker of the Assembly

Overview of Long Island Power Authority

Long Island Power Authority (LIPA) is a not-for-profit public utility and the owner of transmission and distribution networks in Long Island, New York. It is established by statute and the state governor has power to appoint board members. LIPA has entered into a management contracts with the Public Service Enterprise Group (PSEG), a publicly traded utility company in New Jersey, and PSEG's subsidiary now manages the billing and day-to-day operations of the distribution network.

Summary of LIPA Reform Act

Section 1(8) of Part B of the Long Island Power Authority Reform Act, 2013 (the LIPA Reform Act) provides the legislative purpose of the act, which is "to refinance outstanding debt of LIPA, a significant portion of which relates to the cost of constructing and financing the now abandoned Shoreham nuclear power plant". The Act authorizes the creation of a restructuring bond issuer for the limited purpose of "issuing securitized restructuring bonds to purchase restructuring property to finance the cost of purchasing, redeeming or defeasing a portion of the outstanding debt". This section also makes it clear that it is the intention of the legislature to provide a statutory pledge (found in s. 9 of the LIPA Reform Act) that until the restructuring bonds are paid in full, "the state will not in any way take or permit any action to revoke, modify, impair, postpone, terminate or amend this act in any manner that is materially adverse to the owners of the restructuring bonds".

The definitions in section 2 of the LIPA Reform Act provide some clarity to the mechanisms for the securitization regime. Restructuring bonds are issued by the "restructuring bond issuer" (which is established under section 4 of the LIPA Reform Act and known as the "Utility Debt Securitization Authority", or UDSA) and secured by the "restructuring property", which is essentially the property interest in a future revenue stream. In section 2(13), "restructuring property" is defined to include the property rights and interests in the "transition charges". As defined in s. 2(21), transition charges are established and may be amended from time to time in accordance with a restructuring cost financing order, and they are a component of the delivery line on the utility bills.

Section 3 provides the procedures for issuing restructuring bonds by the restructuring bond issuer, and includes appeal procedures and public hearing provisions. Section 4 provides the authority to establish the UDSA as a public corporation, the scope of its activities and its governance structure. It should be noted that section 4(2)(a)(i) provides that "the restructuring bond issuer shall only issue and sell restructuring bonds once" (please also see summary of 2015 amendments below). The UDSA also issues the restructuring cost financing orders in accordance with section 5.

Section 6 sets out the features of the restructuring bonds. Section 6(1) limits bond purchaser's remedies to the restructuring property, i.e. the property interest in a future revenue stream. The restructuring bonds are tax-exempt (section 6(2)), and are not debt of the state (section 6(3)).

Section 7 governs the restructuring property and creates a property interest and security interest in the future revenue stream arising from "transition charges". Section 7(1)(c) provides that "[t]he restructuring property may be transferred, sold, conveyed or assigned to the restructuring bond issuer. All or any portion of restructuring property may be pledged to secure the payment of restructuring bonds", and "revenues from the collection of transition charges shall be applied solely to the repayment of restructuring bonds and other ongoing financing costs."

Section 8(2) provides that any owner of the transmission and distribution network or any other entity that collects the delivery charges on behalf of the owner shall impose the transition charges on the consumers, and shall remit such revenues to the owner or pledgee of the restructuring property.

Section 9 provides the pledge from the state not to take actions to impair the value of the restructuring property. Sections 10 to 17 include procedural provisions such as conflicts, third-party billing and standing.

Summary of 2015 Amendments to LIPA Reform Act

The LIPA Reform Act was further amended in 2015 to permit the issuance of additional restructuring bonds by UDSA or a separate "Utility Debt Securitization Authority No. 2" up to an aggregate maximum amount (including the previously-issued Restructuring Bonds) of \$4.5 billion. Any additional issuance of restructuring bonds, whether issued by UDSA or by a new issuer, will be separately secured by distinct collateral pursuant to a new financing order and transaction documents.

Background Information on Duke Energy and Duke Energy Florida

Duke Energy is a publicly-traded utility company with electricity generation and transmission networks in the Carolinas, Florida, Ohio, Kentucky and Indiana. Duke Energy Florida (“**DEF**”) is a subsidiary of Duke Energy and distributes power over much of central and north Florida. The Florida Public Service Commission (the “**Commission**”) regulates DEF and other electric utilities in Florida (including municipal or investor-owned electric utility, and rural electric cooperative which owns, maintains, or operates an electric generation, transmission, or distribution system).

Summary of Legislative Provisions on Asset Securitization

In 2015, section 366.95 of the Florida Statutes is created to enable “financing for certain nuclear generating asset retirement or abandonment costs”. This section includes asset securitization provisions to allow investor-owned electric utilities to set up a special-purpose vehicle (“**SPV**”) to issue secured bonds to finance the utility’s costs (“nuclear asset-recovery costs”) associated with the “early retirement or abandonment of a nuclear generating asset unit”. These provisions were likely introduced in response to the closing of Duke Energy’s Crystal River nuclear plant in 2013. According to DEF, “[t]his process, called Asset Securitization, will save customers approximately \$600 million as compared to traditional cost recovery methods.”¹

Subsection (1) sets out the definitions of some key terms used in the section. The definition of “Assignee” provides examples of different legal structures to set up the SPV, including corporation, limited liability company, trust, partnership or public authority. The definition of “utility” limits the scope of this section to “investor-owned electric utilities” by referring to the same definition in another section of the statute book. “Nuclear asset-recovery bonds” are issued by the utility or assignee, and secured by the “nuclear asset-recovery property”, which is the property interest in the revenue stream arising from “nuclear asset-recovery charges”.

Subsection (2) requires the utility to submit a petition to the Commission for a financing order before the nuclear asset-recovery bonds can be issued. The petition needs to demonstrate that securitization would result in cost savings or would avoid or mitigate rate impacts compared to the traditional method of cost recovery. Subsection (2) further requires the Commission to address specific areas in its financing order, including: (i) the amount of nuclear asset-recovery costs to be financed by the bonds and the period during which the charges can be imposed on customers; (ii) detailed fact findings on cost-effectiveness and rate impacts; (iii) a requirement that charges be nonbypassable and paid by all existing and future customers receiving transmission or distribution

¹ Duke Energy announcement, “Duke Energy Florida cuts rates for customers”, February 8, 2016
<<http://www.prnewswire.com/news-releases/duke-energy-florida-cuts-rates-for-customers-300216799.html>>

services; and (iv) mechanisms for periodic adjustment in the nuclear asset-recovery charges.

Subsection (3) provides that the bonds are considered debt for the utility only for federal income tax purposes, and limits the Commission's power to impose certain requirements in the financing order.

Subsection (4) sets out specific requirements for utility bills, such as showing the nuclear asset-recovery charge as a separate line item on the utility bill.

Subsection (5) creates a property right in the nuclear asset-recovery charges, which exists even if the charges have not been billed and may be pledged to secure the nuclear asset-recovery bonds. The utility may create a wholly owned subsidiary (the SPV) for the limited purpose of "acquiring, owning, or administering nuclear asset-recovery property or issuing nuclear asset-recovery bonds under the financing order", which also protects the nuclear asset-recovery property from potential creditor claims. This subsection also provides priority rules for competing security interests in the nuclear asset-recovery property. Subsections (6) to (8) provides further guidance in connection with the transfer of nuclear asset-recovery property to an SPV.

Subsection (9) provides that the nuclear asset-recovery bonds are not debt of the state of Florida. An issue of such bonds does not obligate the state to levy any tax for its payment, although the state may provide bond guarantees or enhancements. Subsection (10) provides statutory authority for certain entities to invest in nuclear asset-recovery bonds. Subsection (11) provides a pledge from the state not to take actions to impair the value of the nuclear asset-recovery property. Subsections (12) to (15) include boilerplate provisions such as conflicts, severability and penalties for noncompliance.

Duke Energy Florida's Financing Order and Bond Issuance

In November 2015, the Commission released Financing Order [PSC-15-0537-FOF-EI](#) to approve DEF's petition for the issuance of nuclear asset-recovery bonds in the amount of \$1,283,012,000 plus financing costs. Under the financing order, DEF is authorized to impose a nuclear asset-recovery charge to repay the nuclear asset-recovery bonds and associated financing costs, which will be collected on a per-kWh basis from all applicable customer rate classes. The financing order authorizes DEF to impose the charge for a period not exceeding 276 months (23 years) from the issuance of the nuclear asset-recovery bond.

DEF created Duke Energy Florida Project Finance LLC for the issuance of nuclear asset-recovery bonds in June 2016.

RATING METHODOLOGY

Moody's Global Approach to Rating Securities Backed by Utility Cost Recovery Charges

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1. Scope

This methodology describes our global approach to rating securities backed by utility cost recovery charges ("UCRC" bonds) that are established by special legislation and financing orders issued by utility regulatory bodies. The charges backing UCRC bonds rated by us have been established by state legislation and state utility regulatory bodies in the United States. For UCRC bonds backed by charges authorized by other jurisdictions, we will analyze the specifics of the securitization's legal framework and regulations – and their implications for the quality of the protections afforded to investors – within the general methodology described in this report.

Examples of cost recovery charges include those imposed to cover certain costs of utility companies that had been incurred in a regulated environment but could no longer be recovered because of a change to a more competitive regulatory regime (i.e., charges sometimes referred to as "stranded utility charges") and those imposed to pay for environmental cleanups, clean energy or for the replenishment of reserves established for repair of facilities damaged by natural calamities, such as hurricanes or tornados.

2. Executive Summary

A utility cost recovery charge bond is a bond typically issued by a special purpose entity of a utility, or by a special borrowing conduit, to recover specified costs as authorized by special legislation and a specific financing order issued by a public service utility regulatory body. The bonds are backed by a property right created by the legislation, which provides the right to impose and collect special charges on customers' monthly electric bills.

This credit rating methodology was republished on June 22, 2015 containing an updated monitoring section and minor other editorial updates in the body of the text and in certain footnotes. The content of this Credit Rating Methodology has not been changed.

The credit quality of the bonds depends on the legal strength of the property right, which in turn depends on the specifics of the related legislation and financing order, and on the size and economic strength and stability of the ratepayer base against which the costs will be imposed. Therefore, our credit analysis of cost recovery charge securitizations focuses on both legal and economic factors that can influence whether investors in UCRC bonds will be paid as promised.

On the legal side, we assess the extent to which the legislation that authorizes the cost recovery charges¹ provides clear procedures for insulating the transaction from claims by other parties and is likely to be able to withstand challenges to rescind or alter the legislation prior to the legal final maturity of the securities. Consequently, our analysis focuses on the extent to which the legislation clearly defines (1) a property that entitles the owner of such property – the utility, or, in some cases, a public trust or corporation – the right to charge the fee throughout the life of the security in an amount sufficient to make full and timely repayment of principal and interest on the security, (2) the process the owner of the property must follow to charge the fee, (3) the irrevocable right of the owner of the property to transfer the fee to a special purpose financing vehicle for securitization purposes, (4) the type of financing vehicle authorized to issue securities backed by the fees, and (5) the process to be followed such that the transfer would be viewed as a “true sale” of the rights to the cash flows rather than a pledge of collateral for a financing for transactions that involve the transfer of the property from the utility to the issuer. A true sale would insulate the securitization from a bankruptcy of the utility, protecting securitization investors from potential claims on the cash flows by the utility's creditors. In addition, we assess whether the legislation has a government pledge not to impair the utility's right to collect the charges and the consequences if the government nevertheless does attempt to impair the right.

We also examine the likelihood that other potential claimants, such as other creditors of the financing vehicle if it were to become bankrupt or investors in other securities that have been issued by the utility, might make a successful claim on the cash flows of the securitization. Furthermore, we consider the breadth of the market to whom the charge will be applied and the extent to which the charge might be “bypassable,” that is, the extent to which current or future customers might be categorized as outside the scope of the applicability of the charge.

Our assessment of the overall legal strength of the property right involves qualitative and judgmental factors. Transactions that are strong with respect to each of such characteristics may achieve the highest rating while the impact of weakening any of the attributes would be evaluated on a case-by-case basis.

On the economic side, our analysis focuses on the likelihood that the charges established by the legislation and accompanying regulations will be sufficient to repay the securitization bonds and on whether the charges might become onerous enough to cause pressure to rescind or alter the charges through future legislative or legal actions. As part of that assessment, we evaluate (1) possible changes in the size and composition of the customer base against whom the fee is to be charged, incorporating an evaluation of the breadth and diversity of the customer base, (2) the likely per capita energy usage (in those cases in which the fee charged is based on the usage amount), and (3) the fee rate, including any mechanism built in by the legislation that enables the fee to be reset over time to offset shortfalls that might develop over the life of the securitization (i.e., the transaction's “true up” mechanism). Generally the true-up mechanism is in effect the most important credit protection for UCRC transactions, limiting the risk that the cost recovery charges will be insufficient to pay off the bonds, thereby limiting the need for traditional sources of credit enhancement such as subordination and reserve funds.²

In analyzing a transaction's true-up mechanism, we examine how high rates would need to be set under “stressful” future scenarios to fully pay off the bonds, to assess the risk that onerous future rates might cause pressure to overturn or change the legislation and/or regulations establishing the charges. The variables that we typically “stress” test for UCRC bonds are the base against which the charge is to be

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

¹ Throughout this report we use the terms “cost recovery charges” and “cost recovery fees” interchangeably.

² The true-up mechanism also limits the need to analyze the underwriting of the customer base, since the mechanism adjusts for all shortfalls, including those caused by customer defaults.

applied (usually energy usage) and the servicing fee. To obtain a high rating, we would expect that even in a stressful environment, such as one in which energy usage declined dramatically, the charge per customer necessary to pay off the bonds would be reasonably low both in absolute terms and as a percentage of the customer's energy bill. The specific stresses that we place on the variables are issuer-specific and are determined on a case-by-case basis.

In addition, we analyze the implications of other structural features of the securitization that could affect the risk of investor loss. For example, we examine the risk implications of how the cash flows are allocated among the various classes of investors and the other participants in the transaction, and the extent to which any other sources of funds are likely to be sufficient to offset any remaining shortfalls to investors, whether the shortfalls are temporary ("liquidity") or permanent ("credit enhancement").

3. Analyzing the Risk Factors

Because of the unique characteristics of this highly regulated asset class, our credit analysis of UCRC securitizations focuses primarily on the legislation and the true-up mechanism. The degree of certainty that the fees generated through the legislation will be sufficient to pay off the securitizations in full is a complementary aspect of the analysis. .

Depending on the risks and mitigants in the relevant jurisdiction, transaction ratings will typically be positioned between the government rating and the country ceiling. Risks that could lead us to determine transaction ratings to be lower than the country ceiling include, for example, continued high levels of debt burden in a utility system. Such high levels of debt, if deemed unsustainable in the long term, may lead to political pressure to adjust the regulatory framework around the system deficit, with some potential negative impact on the related securitization transactions.

In the following sections, we describe the factors that typically lead to a high degree of certainty and thus high ratings on the bonds.

3.1 Protection against Future Impairment of the Right to Collect the Charges

Utility cost recovery charges are established by special legislation that authorizes the creation of a property right to collect future surcharges on customers' monthly electricity bills as the means to pay back the UCRC bonds. Consequently, we analyze the extent to which investors are protected against the enactment of future legislative changes that would weaken that right. For example, investor risk would be mitigated in a situation in which (1) the legislation contained a pledge by the jurisdiction not to impair the right to collect the special charges until the maturity of the bonds and (2) violation of that pledge would be a violation of law ³.

3.2 Irrevocability of the Financing Order

The legislation is typically accompanied by a financing order issued by the public service commission that authorizes the utilities to impose and collect the surcharges on the customer's monthly electric bill during the term of the bonds. Our analysis assesses whether the financing order is irrevocable, which would protect investors against future adverse changes that may reduce the charges backing the bonds.

3.3 Sufficiency of the Charges and the True-Up Mechanism

The charges are usually assessed as an amount linked to a customer's energy usage. Our analysis considers whether the financing order places any limits on charges – e.g., caps on the levels of charges or limits on the length of time that the charges can be imposed – that might cause the collections to be insufficient to provide for timely payment of the principal and interest on the UCRC bonds. In addition, we analyze whether the period over which the charges are allowed to be levied provides sufficient cushion to pay off the bonds by maturity in the event that collections come in more slowly than originally projected.

³ Violation of the non-impairment pledge would be a violation of the Contract Clause and the Takings Clause under the Federal and State constitutions.

As part of that analysis, we evaluate the power of any true-up mechanism that is provided for in the legislation and detailed in the financing order to correct for shortfalls that may develop over the life of the securities. A true-up mechanism typically adjusts future fee rates on a scheduled periodic basis (e.g., semiannually or annually) to correct for any under- (or over-) collections in a preceding period and to ensure the full and timely payment of future scheduled debt service, based on updated usage forecasts. The greater the frequency with which the true-up adjustments are made, the less likely that investors will suffer a shortfall at the final maturity date.⁴

That is particularly important as the security approaches the final maturity date; frequent rate adjustments based on then-current projections mitigate the risk that actual collections will deviate substantially from those projections, limiting the possibility of shortfalls at the final maturity date. Consequently, our analysis assesses the conditions under which more frequent true-ups are allowed, especially near the final maturity.⁵

3.4 Non-Bypassability of the Charges

We evaluate whether the charges are “non-bypassable,” that is, whether the charges must be collected from all existing and future customers of the utility or its successors or assignees within the utility’s service territory, and whether the financing order provides that a severance fee be charged to customers who switch to other service providers within the territory during the life of the bonds. We evaluate any exceptions to the non-bypassability rule, and consider the materiality of those exemptions to the cash collections. Charges that cannot be bypassed (i.e., those that cannot be avoided by the customers in the utility’s service area) ensure a continuing payer base for the charges, leading to less risk for investors. As described in the Structural Features section (Section 3.8), the power of the true-up mechanism to protect investors is dependent on the non-bypassability of the charges. As a result, non-bypassability (with limited, immaterial exemptions) has been a key factor behind the high ratings that are typically assigned to these transactions, without the need for considerable protection from traditional types of credit protection, such as reserve accounts or subordination.

3.5 Bankruptcy of the Utility

For structures in which the initial owner of the property is a utility, a bankruptcy of the utility could expose securitization investors to the risk that other creditors of the utility might make a claim on the cost recovery charges or that payments to securitization investors might be delayed as a result of an imposition of an automatic stay on payments from the utility company.^{6,7} However, that risk would be limited if it were clear that a bankruptcy court would view the transfer of the rights to the charges as a “true sale” of those rights, rather than as a financing of the company. As a result, we analyze whether the legislation clearly establishes the utility’s right to receive and transfer the rights to the charges and provides unambiguous procedures for transferring those rights to the financing vehicle as a true sale, and whether those procedures are followed in the financing order.

In cases where the utility is the servicer of the transaction, we analyze whether a bankruptcy of the utility could lead to a disruption in servicing, e.g., billing and collecting. However, given the essential service provided by the utility, we expect that government authorities would intervene to prevent any disruption in servicing that might result from a bankruptcy. As a result, where the servicer is a regulated utility, we view operational risk as low. Consequently, we typically would consider a transaction to be consistent with a Aaa rating even if the servicer were not investment grade, as long as the transaction were structured with some mitigants for operational risk, such as the inclusion of a backup servicer and/or provision for additional liquidity.⁸

⁴ Generally, the charges collected rank senior to other charges of a utility system and represent only a small amount of the total revenues of such system.

⁵ Transactions typically allow for more frequent true-ups during the “tail period” between the transaction’s stated “expected” maturity (determined by the sponsor) and the “legal” final maturity. The legal final maturity is the important date from our rating perspective, the date by which all principal must be repaid.

⁶ In some transactions, the property is created by law for the benefit of a public trust or corporation that also is created by the same law. In such cases, the true sale risk would be non-existent as there is no sale or transfer of the property.

⁷ For a discussion of how Moody’s analyzes legal risks in structured finance transactions, see Moody’s Related Research section at the end of this report.

⁸ The rating standard for a backup servicer likely would be lower than investment grade, but would depend on the specific facts and circumstances of the transaction and servicer.

In addition, we analyze whether the bankruptcy of the utility could cause a disruption in the remittance of payments by the utility to bondholders. Such a disruption could occur if the remittances of the charges were “commingled” with the other funds of the utility and the bankruptcy court ordered a halt to payments until proper ownership of the funds could be sorted out. Our analysis includes an assessment of the ways in which the utility separates the cost recovery charges received from its other funds and the frequency with which it transfers the funds to the trust.

3.6 Bankruptcy of the Financing Vehicle

Another potential risk to investors in UCRC securitizations is a bankruptcy of the financing vehicle. That could expose investors to the risk that other creditors of the vehicle might make a claim on the cost recovery charges or that payments to investors might be delayed by the imposition of an automatic stay. Consequently, we analyze (1) the likelihood that a third-party creditor would be able to successfully petition the owner of the assets (i.e., the financing vehicle) into an involuntary bankruptcy proceeding or (2) the likelihood that the owner of the assets would voluntarily seek the protection of the bankruptcy courts.

To analyze the likelihood of an involuntary bankruptcy, we assess the characteristics that would mitigate that risk, such as if the financing vehicle had (1) no assets other than the right to the cost recovery charges, (2) no indebtedness other than the securitization debt, (3) limited activities that could give rise to contractual or other liabilities, and (4) agreements with the sponsor and other contracting parties not to petition for the dissolution, liquidation or bankruptcy of the securitization vehicle. Similarly, factors that would mitigate the risk of a voluntary bankruptcy would include (1) charter documents of the owner of the assets that require directors who are independent of the utility and (2) a unanimous vote of directors as a condition to filing a voluntary bankruptcy.

3.7 Economic Factors

Even if the financing order is irrevocable, the charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That is more likely the higher the charges, i.e., the more the economic incentive for a challenge or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Typically the percentage of a residential customer's monthly bill devoted to the cost recovery charge is less than 10%.

We typically also look at stressful collection scenarios. For example, in one scenario, we assume (1) that energy usage falls short of the utility's projections⁹ by a progressively increasing amount each year (typically 5% per year), (2) that forecasted collections in peak usage months do not materialize (for example, 100% of the collections in the peak month and 50% of the collections in the second highest-usage month), and (3) that the servicing fee is considerably higher than the current, “normal,” servicing fee, representing the fee that would be required if the original servicer needed to be replaced in a stressful environment. In another scenario, we typically assume that energy usage is lower than projected by a set amount throughout the life of the securitization (typically 25%). For highly rated transactions, we would expect that the cost recovery charge would remain relatively low even in those highly stressful scenarios.

While the specific stresses that we place on the variables have been quite similar to date, this reflects the fact that all rated transactions to date have involved requests for the highest ratings and been supported by highly diverse, broad-based service areas. However, in general, stresses are issuer-specific and are determined on a case-by-case basis. One of the factors that we use to determine the appropriate stress level for a transaction is the variability of the base against which the charge is applied, for example, the population in the service area or the energy usage in the service area. Customer bases that are less broad-based and diversified tend to be more variable; as a result, we would apply more severe stresses in those situations.

⁹ We typically assess the reasonableness of the utility's projections by analyzing (1) the historical energy usage in the utility's service region and the variances between past projections and actual outcomes, and (2) the likely growth in electricity usage in the service area of the utility, taking into account the projected economic growth in the region and the possible competitive impact of technological advances, such as those in the development of solar energy.

In particular, we evaluate the economic diversity of the utility's service region to assess the potential variability in its economic health, which tends to drive changes in population and energy usage. An area that relies on multiple industries for economic growth will likely have a more stable business climate than an area that is dependent on the fortunes of one industry. In the latter case, the area's prospects will falter if that particular industry runs into hard times.

We also consider the mix in the customer base among residential, commercial, and industrial users. A utility with a large residential base relative to commercial and industrial users will tend to have less volatility in energy consumption, since energy consumption by commercial and industrial operations is more closely tied to the business cycle. Furthermore, residential customers are less likely to quickly embrace new energy production technologies and are less likely to cut back energy consumption dramatically if the price of energy were to rise. The higher variability of a commercial and industrial base can be exacerbated further if the service area's customer usage is concentrated in a few large commercial or industrial operations, which could make the overall energy consumption vulnerable if those entities were to decline or leave the area.

3.8 Structural Features

The key structural feature of UCRC transactions is the true-up mechanism. Our rating is highly dependent on the extent to which the mechanism adjusts the charges to correct for past shortfalls or forecasted future shortfalls. The effectiveness of those rate changes in raising funds depends, in turn, on how easily customers can escape the charges and how sensitive electricity usage is to increases in the utility charges. Therefore, our analysis of the true-up mechanism goes together with our analysis of how bypassable the cost recovery charges are and how easily customers can cut back on electricity usage (through alternative sources of energy or conservation). To be consistent with a particular rating, a strong true-up mechanism combined with non-bypassable charges mitigates the need for credit enhancement in the form of alternative sources of funds.

In addition, our analysis of the credit risk of a UCRC transaction incorporates our assessment of the implications of the transaction's cash flow allocation structure (sometimes referred to as the cash flow "waterfall"). In particular, we focus on the seniority of principal and interest payments to the bond's investors *vis-à-vis* payments to other participants. In addition, we analyze the extent to which the transaction has an alternative source of liquidity to pay principal and interest in the event that there is a temporary interruption in the flow of the cost recovery charges. For example, in many transactions there is a capital or reserve account with funds sufficient to pay interest for at least 1-2 months, if needed. Furthermore, we assess the extent to which the credit enhancement that is available in the transaction is likely to be sufficient to offset any shortfalls that might develop in the period between the final true-up adjustment and the maturity of the bonds.

4. Monitoring

In monitoring UCRC transactions, we apply the key components of this methodology. More specifically, we analyze, whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialise, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

Depending on the jurisdiction, we also follow the rating of the utility as a proxy to assess any changes to the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of the utility collecting the charges (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

In other instances, we may be more concerned with the behavior of the regulator of the utility system and less with individual utility companies. This could lead to a lower rating in the space between the local currency ceiling and the sovereign rating or the utility rating.

Thus changes on our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

Moody's Related Research

The credit ratings assigned in this sector are primarily determined by this credit rating methodology. Certain broad methodological considerations (described in one or more secondary or cross-sector credit rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments in this sector. Potentially related secondary and cross-sector credit rating methodologies can be found [here](#).

For data summarizing the historical robustness and predictive power of credit ratings assigned using this credit rating methodology, see [link](#).

Please refer to Moody's Rating Symbols and Definitions, which is available [here](#), for further information.

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INVESTORS SERVICE

CREDIT OPINION

18 February 2016

Pre-Sale

Closing Date

April 2016

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Utility Debt Securitization Authority Restructuring Bonds, Series 2016A

Presale Report - Long Island Power Authority-Sponsored
Securitization of Utility Cost Recovery Charge Assets

Capital Structure

Exhibit 1

Provisional (P) Ratings*

Series	Expected Amount	Tax Status	Interest Rate	Legal Maturity**	Provisional Ratings
2016A	[\$381,730,000]	Tax- Exempt	Fixed	[12/15/2028]	(P) Aaa (sf)

The ratings address the expected loss posed to investors by the legal final maturity date. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the securitization. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

* Principal amounts and legal maturity dates are preliminary and subject to change

** Reflects the latest legal maturity date among the tranches in the series

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016, and Moody's Investors Service

Summary Rating Rationale

The Utility Debt Securitization Authority (the issuer) intends to issue Restructuring Bonds, Series 2016A. The bond issuance will enable the Long Island Power Authority (LIPA, Baa1 stable) to retire a portion of its outstanding debt. This will be the third utility cost recovery charge (UCRC) securitization that LIPA has sponsored since 2013. These bonds are backed by restructuring property which consists of, among other things, the right to impose usage-based restructuring charges on all current and future retail electric customers in LIPA's service area.

Our provisional ratings on the bonds reflect our assessment of (1) the strength of the State of New York's legislation including the State's non-impairment pledge, which strongly protects the restructuring property backing the bonds; (2) the strength of LIPA's irrevocable financing order authorizing the creation of the restructuring property; (3) the size, stability

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 18 February 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

and diversity of the ratepayer base in LIPA's service area; (4) the ability and experience of LIPA, who is responsible for the billing and collection of the 2016A restructuring charges, as the initial servicer of the restructuring property, and of PSEG Long Island LLC (PSEG-LI), who will perform LIPA's key servicing functions; and (5) the credit enhancement supporting the bonds in the form of a mandatory uncapped true-up mechanism that periodically adjusts the restructuring charges to ensure timely bond payments until the bonds are repaid in full, a non-declining operating reserve account and a debt service reserve account.

Credit Strengths

Strength of Legislation and Financing Order: The State of New York's legislation (Part B of the LIPA Reform Act, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on August 14, 2015 permits the securitization and strongly protects the restructuring property securing the bonds. Similar to other UCRC securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of New York pledges to UCRC bondholders that it will not 1) take or permit any action that limits, alters or impairs the value of the restructuring property, or 2) except as required by the adjustment mechanism, reduce, alter or impair restructuring charges until the bonds have been repaid in full (the state pledge). In addition, the LIPA Reform Act and financing order contain the typical strong true-sale and security interest provisions.

LIPA's irrevocable financing order authorizes the creation of restructuring property, which grants the issuer the irrevocable right to impose, bill and collect irrevocable, non-bypassable restructuring charges based on electricity usage from all of LIPA's existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full.

The financing order authorizes LIPA to recover the costs of retiring certain of its outstanding debt and the issuer to recover the costs of issuing, supporting and servicing the bonds. The issuer will recover these costs by collecting restructuring charges until the bonds are repaid in full, without any specified time limit.

True-Up Adjustment Mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts restructuring charges annually, and if necessary, semiannually (and quarterly after the last scheduled maturity date of the bonds of any series), in each case to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments, at any time without limitation as to frequency, if the servicer deems necessary to ensure timely bond payments. New to the 2016A transaction, the servicer may elect to perform an additional voluntary mid-year true-up adjustment to decrease charges to customers to correct for overcollections in any year (in addition to the requirement that the servicer perform a mandatory mid-year adjustment to increase charges to customers to correct for undercollections). Also, the timing of the mid-year and annual true-ups has changed to help smooth charges over the course of the year.

Strength of the Ratepayer Base: The size, economic stability and diversity of the ratepayer base in LIPA's service area is a credit strength. The service area is fixed by the securitization law and primarily includes the Long Island counties of Nassau and Suffolk, which are two of the most affluent counties in the United States. The service area primarily includes a mix of residential customers (89%) and commercial customers (10%). Unlike most other UCRC securitizations, the service area includes very few industrial customers, which is a credit positive. Energy consumption by industrial customers is more volatile compared with other types of customers, because consumption by industrial operations is more closely tied to the business cycle.

Credit Challenges

Challenges to LIPA Reform Act and Financing Order: Potential state and federal legislative and regulatory actions could weaken the strength of the legal protections of the securitizable restructuring property; however we view this risk as remote. New York does not have a referendum or initiative process by which voters could challenge the LIPA Reform Act. Therefore, the only way to repeal or amend the LIPA Reform Act, or for LIPA to amend or revoke the financing order, would be through a legislative action which would violate the state pledge. The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws

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prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered.

Potential for Insufficient Collections: Collections arising from the restructuring property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration and self-generation. PSEG-LI's estimates of market demand, energy prices and growth within LIPA's service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, in which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments occur annually, semiannually and on an interim basis as needed.

Relatively High Restructuring Charge: LIPA expects the securitization's initial restructuring charge to represent around [0.79%] of the total monthly bill that an average 1,000 kilowatt hour (kWh) residential customer in LIPA's service area will receive as of June 1, 2016. The initial restructuring charge for the 2016A transaction, combined with the current restructuring charge for the 2013 and 2015 transactions, is expected to represent approximately [6.91%] of a typical residential customer's bill, and is relatively high compared to other utility cost recovery transactions. This concern is mitigated by LIPA's securitization offset rider, which reduces LIPA's delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

Key Characteristics

Exhibit 2

Asset Characteristics

Assets:	Restructuring property consisting of the issuer's irrevocable right to impose, charge and collect irrevocable, non-bypassable usage-based restructuring charges from all existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up adjustment mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full

Service Area:	Approximately 1.1 million customers in Nassau and Suffolk counties ¹ and the Rockaway Peninsula

¹ Excludes the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Tax-exempt, fixed rate bonds with semi-annual payments
Amount:	[\$381,730,000] ¹
Structure:	Standalone trust
Credit Enhancement:	Mandatory uncapped true-up mechanism, Collection Accounts and Debt Service Reserve Account
Sponsor/Seller/Initial Servicer:	Long Island Power Authority (Baa1 stable)
Issuer:	Utility Debt Securitization Authority, a special purpose corporate municipal instrumentality of the State of New York
Operations Agent:	PSEG-Long Island
Trustee:	Bank of New York Mellon (Aa1/Aa2 stable, a1) ²

¹ Preliminary and subject to change based on market conditions

² The bank ratings shown in this report are the banks' deposit ratings and senior unsecured debt ratings and outlooks, and their baseline credit assessments

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Offering Statement dated February 18, 2016

Assets Overview

The collateral for this pool is the restructuring property consisting of the irrevocable right to impose, charge and collect non-bypassable, usage-based restructuring charges from all existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full.

Assets Description

The Securitization Law

The purpose of the securitization law is to create the issuer and allow LIPA to finance the retirement of a portion of its outstanding debt through the issuer's issuance of restructuring bonds, resulting in savings to LIPA's customers on a net present value basis. The securitization law gives LIPA the right to impose restructuring charges, which are the key asset of this securitization.

Prior to the legislature's amendment of the securitization law on March 26, 2015, the law permitted only one issuance of restructuring bonds by the issuer, and that issuance took place in December 2013 pursuant to Financing Order No. 1. The amended securitization law permits LIPA's Board of Trustees to adopt additional financing orders to, among other things, authorize the creation of additional restructuring property and the issuance of additional restructuring bonds in an aggregate additional amount not to exceed \$4.5 billion (inclusive of the \$2,022,324,000 previously issued 2013 restructuring bonds and the \$1,002,100,000 previously issued 2015 restructuring bonds). After the 2016A issuance, LIPA will have authority to issue an additional [\$1,093,846,000] billion of restructuring bonds under the securitization law.

Specifically, the securitization law coupled with the financing order authorizes LIPA to sponsor multiple bond issuances to finance the recovery of the costs of retiring a portion of its outstanding debt and financing costs, including the costs of issuing, supporting and servicing the bonds.

Similar to other UCRC securitizations, this securitization benefits from the securitization law's inclusion of a state non-impairment pledge, subject to the true-up mechanism, that will be incorporated into the securitization documents for the benefit of the trustee on behalf of bondholders. A breach of such pledge triggers an event of default under the indenture.

Specifically, the State of New York pledges to and agrees with the bondholders, the issuer and LIPA that the State will not in any way: 1) take or permit any action that limits, alters or impairs the value of the restructuring property; or 2) except as required by the adjustment mechanism authorized by the securitization law and set forth in the financing order, reduce, alter or impair restructuring charges that are imposed, collected and remitted for the benefit of the bondholders until all principal of and interest on the bonds and all ongoing financing costs have been repaid in full.

The state pledge provides protection to bondholders; to the extent LIPA or the State of New York have obligations under the financing order, the LIPA Reform Act provides that the owner of the restructuring property (the issuer), or the trustee representing the bondholders, are expressly permitted to bring actions for enforcement of the financing order.

New York does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to change the securitization law would be through a legislative action which would be subject to the state pledge.

The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims.

Under the laws of New York and the United States, New York could not constitutionally take any legislative action, including the repeal or amendment of the securitization law, which would substantially limit, alter or impair the restructuring property or other rights vested in the bondholders pursuant to the financing order or substantially limit, alter, impair or reduce the value or amount of the restructuring property, unless (1) such action is a reasonable exercise of the State of New York's sovereign powers that appropriately furthers a legitimate public purpose; and (2) if such action constituted a permanent appropriation of the bondholders' substantial property interest in the restructuring property and deprived them of their reasonable expectations arising from their investments in the bonds, under the takings clauses of the federal and New York Constitutions, New York could not take such action without paying just compensation to the bondholders as determined by a court of competent jurisdiction.

Hawkins Delafield & Wood LLP, LIPA's special counsel, will provide a legal opinion prior to securitization closing to the effect that the bondholders (or the trustee acting on their behalf) could successfully challenge under the contracts clause of the United States Constitution the constitutionality of any repeal or amendment of the securitization law or any other action or failure to take any action required by the state pledge that limits, alters or reduces the value of the restructuring property or the restructuring charges before the bonds are repaid in full, unless such action is necessary to further a significant and legitimate public purpose.

Hawkins Delafield & Wood LLP, LIPA's bond counsel, will provide a legal opinion prior to securitization closing to the effect that under existing case law, assuming the takings clause applies under the federal and New York Constitutions, respectively, the State of New York would be required to pay just compensation to the bondholders if the State undertook a repeal or amendment of the securitization law or took any other action or failed to take any action required by the state pledge before the bonds are repaid in full that: 1) permanently appropriates the related restructuring property or denies all economically productive use of the related restructuring property; 2) destroys the restructuring property, other than in response to emergency conditions; or 3) substantially reduces, alters or impairs the value of the restructuring property so as to unduly interfere with the bondholders' reasonable expectations arising from their investments in the bonds.

The Financing Order

The securitization law authorizes LIPA's securitization program, while a separate financing order implements each issuance of bonds under the program.

On June 26, 2015, LIPA Trustees adopted Financing Order No. 3 (the financing order), together with Financing Order No. 2 and Financing Order No. 4 and on July 15, 2015, the New York Public Authorities Control Board approved them. On August 14, 2015, they became irrevocable, final and non-appealable. Each financing order authorizes restructuring bonds that will be secured by a separate restructuring property that would be created pursuant to that financing order.

Similarly, the 2013 restructuring bonds that the issuer issued pursuant to Financing Order No. 1 are secured by the 2013 restructuring property, and the 2015 restructuring bonds that the issuer issued pursuant to Financing Order No. 2 are secured by the 2015 restructuring property.

The issuer is issuing the 2016A restructuring bonds pursuant to Financing Order No. 3, which authorizes: 1) the creation of the 2016A restructuring property; 2) LIPA to sell the 2016A restructuring property to the issuer under the financing order (the 2016A restructuring property is created simultaneously with its sale to the issuer); 3) the imposition, billing and collection of restructuring charges on, to and from the customers in the service area; 4) the issuance of the bonds by the issuer; 5) the issuer to use the bond proceeds to purchase the 2016A restructuring property from LIPA and pay upfront financing costs; and 6) LIPA to use the proceeds of the sale of the 2016A restructuring property to retire a portion of its outstanding debt.

The securitization law provides that the financing order is irrevocable and is not subject to modification or termination. The financing order acknowledges the state pledge.

Prior to the issuance of the bonds, the financing order requires the servicer to file an issuance advice letter with LIPA setting forth: 1) the expected savings to customers from the securitization; 2) the estimated ongoing financing costs; 3) the initial restructuring charge; and 4) the final terms of the bonds. The financing order authorizes a designee of LIPA to review and approve the issuance advice letter for the purpose of confirming that the stated terms are consistent with the financing order. The designee's approval will be final and incontestable.

The 2016A Restructuring Charges

Under the financing order, the servicer (on behalf of the issuer as owner of the restructuring property) has the right to impose, bill and collect irrevocable and non-bypassable restructuring charges from all of LIPA's customers in an amount sufficient to: 1) pay interest on the bonds when due and principal of each tranche of bonds according to the related expected amortization schedule; 2) pay the fees and expenses of the securitizations' service providers; and 3) replenish the operating reserve and debt service reserve subaccounts to the required levels.

There is no cap on the level of restructuring charges that the servicer may impose on ratepayers through the true-up adjustment mechanism to ensure the expected collection of amounts sufficient to pay the amounts specified above on time. Accordingly, the restructuring charges may continue to be imposed and collected until the bonds are repaid in full, without any specified time limit.

The financing order authorizes the servicer to collect restructuring charges directly from LIPA's customers. The restructuring charge will be the same for all customer classes. Under the securitization law, the charges and any adjustments thereto are not subject to review or regulation by the New York State Department of Public Service, the staff arm of the Public Service Commission.

Restructuring Charges are Non-Bypassable

The securitization law provides that the restructuring charges are non-bypassable. "Non-bypassable" as set forth in the securitization law and the financing order means that the customer is obligated to pay the restructuring charges (and may not legally avoid payment of such charges) as long as such customer is connected to the transmission and distribution (T&D) system assets (LIPA's delivery system, which includes transmission and distribution lines and substations) and is taking electric delivery service in the service area, even if such customer produces its own electricity or purchases electric generation services from a provider of electric generation services other than the owner of the T&D system assets and even if LIPA no longer owns the T&D system assets. Thus, the only way customers can avoid restructuring charges is if they are fully cut off from the T&D system assets.

Self-Generation in the Service Area is Low

Self-generation, which primarily includes solar and wind, reduces the ratepayer base and increases the burden of restructuring charges on other non-self-generating ratepayers. Self-generation is currently very small in the service area at roughly 0.3% of energy sales. LIPA forecasts self-generation to grow slowly over the next three years, and incorporates self-generation into its electricity consumption forecasts. Certain customers that self-generate will only be responsible for paying restructuring charges based upon their "net-billed" consumption.

Municipalization

Municipalization, or the transfer of the T&D system assets to a municipal owner, would not affect restructuring charge collections because the customers are required to pay the restructuring charges even if the T&D system assets are no longer owned by LIPA. Since 1998, no municipalizations have occurred.

The Service Area

LIPA provides electric transmission and distribution services in its service area which includes two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. The population of the service area is around three million.

The securitization law defines the service area as the geographical area within which LIPA provided electric transmission and distribution services as of July 29, 2013. Thus, the service area is fixed by the legislation.

As of December 31, 2015, the service area included approximately 1.1 million customers. Of these, approximately 89.3% were residential, 10.2% commercial (with very few industrial customers), 0.5% street lighting and 0.0% other public authorities; the average number of customers has been fairly stable over the last 10 years, with very small year-over-year changes ranging from -0.2% to 0.7%. Retail electric usage was 48.2% residential, 48.8% commercial, 0.7% street lighting and 2.2% other public authorities.

In the year ending December 31, 2015, LIPA's largest customer, the Long Island Rail Road, accounted for less than 2.0% of LIPA's total sales, and LIPA's top 10 customers accounted for approximately 7.0% of LIPA's total sales.

Statutory Uncapped True-Up Adjustment Mechanism

Under the securitization law and the financing order, the servicer will adjust the restructuring charges through the securitization's true-up mechanism to ensure timely bond payments. The adjustments to the charges will continue until the bonds are repaid in full and there is no cap on the amount of charges that may be imposed on customers resulting from the adjustments.

The mechanics of the true-up adjustments are as follows:

1. initial true-up adjustment to the restructuring charges will be made on November 15, 2016
2. standard mandatory annual adjustments to the restructuring charges to correct for any over-collections or under-collections to date and anticipated to be experienced up to the date of the next annual adjustment and to ensure that the expected collections are sufficient to timely pay interest and scheduled principal (according to the expected amortization schedule) on the bonds and all other ongoing financing costs (the revenue requirement)

3. mandatory semiannual adjustments to the restructuring charges only if the servicer forecasts that charge collections will be insufficient to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
4. voluntary semiannual adjustments to decrease the restructuring charges to customers if the servicer forecasts that charge collections will be greater than the amount required to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
5. more frequent adjustments at any time without limits as to the frequency to ensure that the expected charge collections are adequate to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
6. after the last scheduled maturity date of the bonds (of any series), quarterly adjustments to ensure that charge collections will be sufficient to timely pay interest and principal on the next payment date, in addition to all other ongoing financing costs; the adjustments will be set at levels estimated to generate revenues sufficient to fully repay the bonds on the next payment date, plus all other ongoing financing costs

All adjustments will be designed to cause: 1) the outstanding principal balance of the bonds (or any series of bonds) to be equal to the scheduled balance (based on the expected amortization schedule); 2) the amount in the operating reserve and debt service reserve subaccounts to be equal to the required levels; and 3) with respect to the annual true-up only, any amount in the excess funds subaccount to be equal to zero by the payment date immediately preceding the effective date of the next annual adjustment.

Under the financing order, the adjustments are to be based on actual charge collections and the servicer's updated assumptions for projected future charge collections, projected uncollectibles and loss in collection of billed charges, and future payments and expenses relating to the restructuring property and the bonds.

No Third-Party Billing/Collection of Charges

Under the securitization law and the financing order, if and to the extent that third parties are allowed to bill and/or collect any restructuring charges in the future while the bonds are outstanding, LIPA, any successor regulator, and any owner of the T&D system assets will take steps to ensure non-bypassability and minimize the likelihood of default by third-party billers. Further, LIPA and any successor regulator will not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the current ratings on the bonds.

Assets Analysis

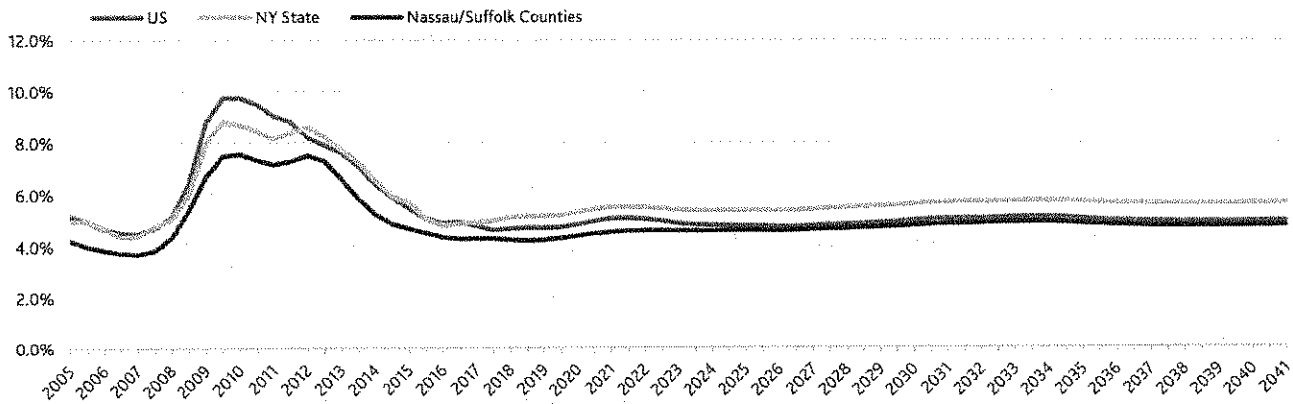
Strong Service Area

Long Island's economy benefits from a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy.

Long Island's median household income is substantially above that of New York and the US. According to estimates from the US Census Bureau, the 2014 median household income for Nassau County and Suffolk County was \$98,401 and \$88,323, respectively, considerably higher than the \$58,687 for New York and the \$53,482 for the US. According to LIPA, while the cost of electricity in the service area is higher than the national average, the cost of electricity as a percentage of income is below the national average.

Exhibit 4 shows that the Nassau-Suffolk unemployment rate is lower than that of the US, and we forecast the rate will remain lower.

Exhibit 4
Unemployment Rate*



* Data does not include the Rockaways, Queens, which is also part of the service area.
Source: US Bureau of Labor Statistics and Moody's Analytics

Exhibit 5 shows Moody's Analytics' forecasted average year-over-year changes in various economic stability measures for the service area, compared with New York and the US. The data include Nassau and Suffolk counties, but exclude the Rockaways in Queens, NY. The exhibit shows that forecasted population growth will be relatively flat.

Exhibit 5
Forecasted Average Year-Over-Year Changes in Population and Economic Stability Measures
(Data for 2016-2041, the scheduled maturity date of the bonds)

	Nassau-Suffolk *	New York	US
Population	0.1%	0.1%	0.7%
Households	0.3%	0.4%	0.9%
GDP (Chained 2009 \$)	1.6%	1.4%	2.0%
Per Capita Income	3.3%	3.6%	3.6%
Employment (non-farm payroll)	0.5%	0.5%	0.8%

* Does not include the Rockaways, Queens, which is part of the service area
Source: Moody's Analytics

Remote Risk of Severe Ratepayer Base Declines

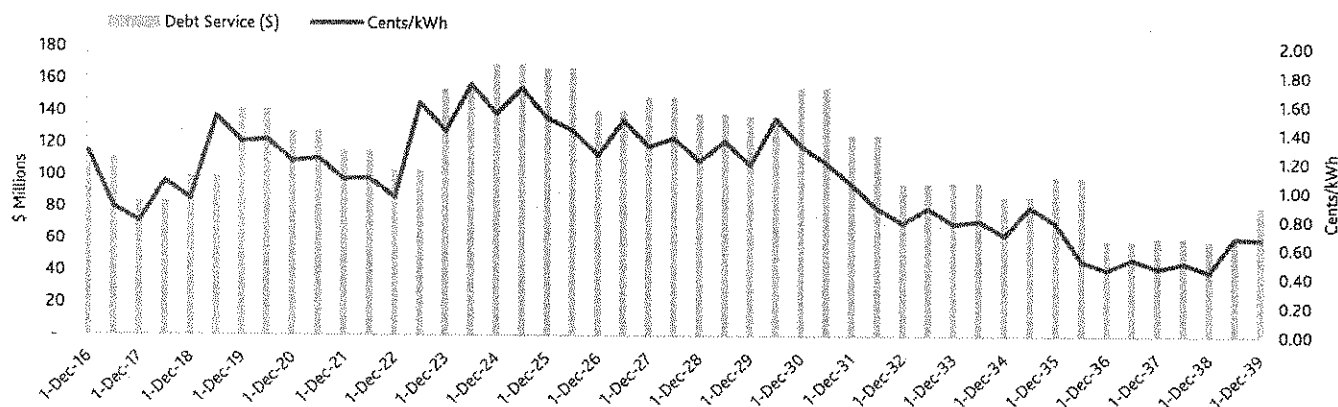
The securitization's performance is exposed to the risk of declines in the ratepayer base in the service area. However, declines in the ratepayer base dramatic enough to impact the rating of the bonds are unlikely given the size, projected population growth and economic stability of the service area's diverse ratepayer base.

LIPA expects the combined initial restructuring charge for the 2013, 2015 and 2016A transactions to be around [6.91%] of the total monthly bill that an average 1,000 kWh residential customer in the service area would receive as of June 1, 2016, which is higher than most other UCRC securitizations we rate. The [6.91%] is preliminary and subject to change based on market conditions.

Exhibit 6 shows LIPA's expected restructuring charge, which is the same for all customer classes, and annual debt service of the bonds over the securitization's life. The exhibit shows that the restructuring charge will vary over time to cover the unlevel debt service of the bonds, which mirrors the unlevel debt service of the retired LIPA bonds.

Exhibit 6

Restructuring Charge (Cents/kWh) and Annual Debt Service*



* Preliminary and subject to change based on market conditions.
Source: LIPA; Moody's calculations

Cash Flow Analysis

We examined the cash flows that the restructuring charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the restructuring charges can go as a percentage of a typical residential customer's bill and also to illustrate how the restructuring charges behave under various stress scenarios of customer demand.

Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm the level of the restructuring charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That is more likely the higher the charges, i.e., the more the economic incentive for a challenge or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Typically the percentage of a residential customer's monthly bill devoted to the cost recovery charge is less than 10%.

We looked at three scenarios. In our base case, we assumed 1) electricity consumption as per LIPA's projections, 2) annual net charge-offs as per LIPA's projections, 3) collection curve as per LIPA's projections and 4) actual servicing fee and other expenses (Scenario A).

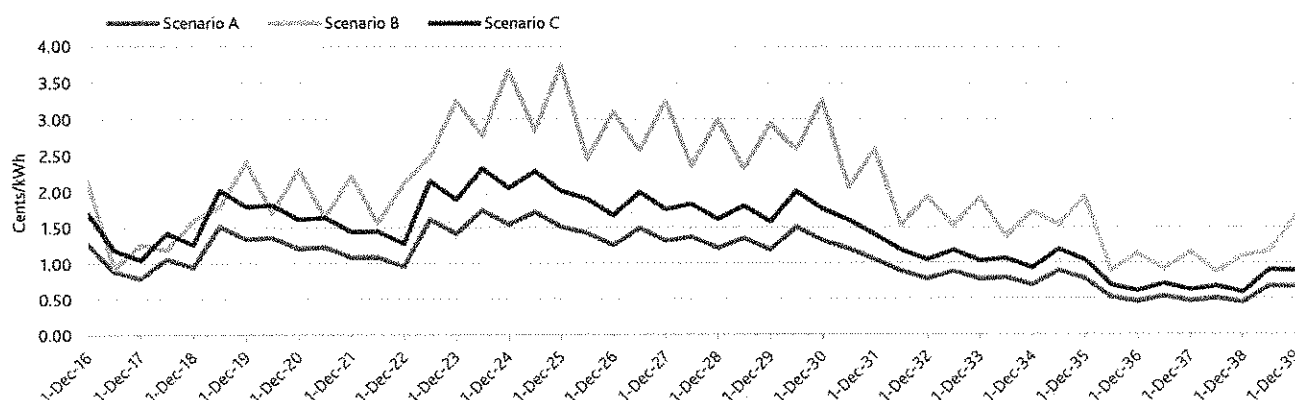
In our first stress scenario, we assumed 1) electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers, 2) annual net charge-offs are the same as in base case, 3) collection curve is the same as in base case, 4) loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year and 4) replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case (Scenario B).

In our second stress scenario, we assumed 1) electricity consumption is reduced by 25% permanently against the first year base case projection, 2) annual net charge-offs the same as in base case, 3) collection curve is the same as in base case and 4) servicing fee and all other fees the same as in base case (Scenario C).

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 7 shows the projected restructuring charges for customers in cents per kWh, and Exhibit 8 shows the projected restructuring charge as a percentage of the typical residential customer's total bill assuming monthly usage of 1,000 kWh over the securitization's life.

Exhibit 7

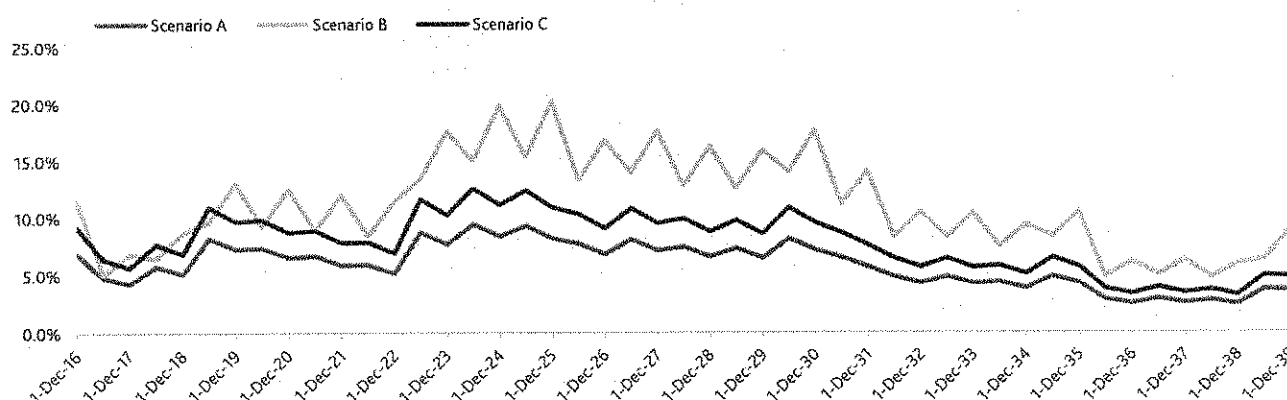
Restructuring Charge (Cents/kWh)



Source: LIPA and the servicers; Moody's calculations

Exhibit 8

Restructuring Charge as a Percentage of a Typical Residential Customer's Total Bill



Source: LIPA and the servicers; Moody's calculations

Forecasting Electricity Consumption

The company monitors the accuracy of each forecast by conducting variance analysis on a monthly basis taking into account weather impacts on kWh sales and deviations from forecast within the customer count. LIPA factors the impact of weather and the growth in self generation, energy efficiencies and the use of electric vehicles into its forecasts.

Exhibit 9 shows LIPA's annual forecast variance for ultimate electric delivery by customer class.

Exhibit 9

Annual Forecast Variance for Ultimate Electric Delivery (MWh)

	2011	2012	2013	2014	2015
Residential	4.3%	-2.4%	-2.7%	-4.3%	0.5%
Commercial	-1.0%	-3.6%	-2.4%	-1.7%	-2.1%
Street Lighting	0.2%	-2.2%	-4.4%	1.7%	-3.8%
Other Public Authorities	5.5%	-13.6%	-4.2%	3.1%	2.5%
Total	1.6%	-3.2%	-2.6%	-2.8%	-0.8%

Note: Negative variance means that the actual electric delivery is lower than the forecasted electric delivery.

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Additional Assets Analysis

Servicing

LIPA, acting as servicer under the servicing agreement, or any successor servicer as the financing order provides, will be responsible for servicing the restructuring property, including: 1) obtaining meter reads; 2) forecasting electricity usage; 3) calculating, billing and collecting the restructuring charges; 4) processing, accounting for and depositing charge collections and making periodic remittances; 5) calculating and implementing the true-up adjustments to the restructuring charges; 6) investigating and handling delinquencies and selling defaulted or written off accounts; 7) responding to inquiries from customers, LIPA or any governmental authority regarding the restructuring property and the restructuring charges; and 8) furnishing periodic reports and statements.

PSEG LI will perform, and is capable of performing, LIPA's key servicing duties, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among other things. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

PSEG is a publicly traded energy and energy services company. As of September 30, 2015, it had total assets of approximately \$36.5 billion, latest twelve months revenues of approximately \$10.9 billion; and employed approximately 12,700 people. PSEG is the parent holding company of PSEG Power LLC, New Jersey's largest wholesale merchant generator with approximately 13.1 GW of capacity; Public Service Electric and Gas Company (PSE&G), New Jersey's largest regulated electric and gas transmission and distribution utility; and PSEG Energy Holdings L.L.C., which owns a portfolio of leveraged leases and is also pursuing investments in renewable generation.

There is no named backup servicer at closing though the financing order allows for a replacement servicer if the current servicer defaults in its performance obligations. In addition, the financing order allows the servicing fee to step-up from 0.05% to 0.60% of the initial principal balance of the bonds if LIPA is replaced as servicer by a successor servicer not affiliated with the owner of the T&D system assets, pursuant to the securitization documents.

The provision of electric service to customers by LIPA is governed by the Home Energy Fair Practices Act (HEFPA). LIPA's credit and collections practices, including the ability to terminate (disconnect) service, are governed by HEFPA.

Loss Experience

Exhibit 10 shows the annual net charge-offs for LIPA, including net charge-offs of customers as part of LIPA's annual charge-off reconciliation process.

Exhibit 10

Net Charge-Offs as a Percentage of Total Billed Retail Electricity Service Revenues

	As of 12/31/2011	As of 12/31/2012	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015
Billed Electric Revenues (\$000)	3,620,532	3,413,091	3,834,255	3,753,765	3,572,133
Net Charge-Offs (\$000)	24,753	19,750	20,969	24,659	23,948
Percentage of Billed Revenue	0.68%	0.58%	0.55%	0.66%	0.67%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Days Sales Outstanding

Exhibit 11 shows the average number of days that LIPA's bills remained outstanding during each of the calendar years below.

Exhibit 11

Average Days Sales Outstanding

	As of 12/31/2011	As of 12/31/2012	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015
Average Days Sales Outstanding	38.55	39.23	39.40	37.13	36.78

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Delinquency Experience

Exhibit 12 shows the delinquency experience of LIPA during each of the calendar years below.

Exhibit 12

Average Monthly Delinquencies of Total Annual Billed Retail Electricity Delivery Service Revenues

	2011	2012	2013	2014	2015
30-59 days	\$ 52,766	\$ 50,348	\$ 59,196	\$49,980	\$42,775
60-89 days	\$ 28,940	\$ 28,018	\$ 32,104	\$24,937	\$21,223
90+ days	\$108,208	\$116,791	\$135,828	\$86,419	\$87,580

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Securitization Structure Overview

LIPA intends to issue one series of tax-exempt, fixed rate bonds, Series 2016A, secured by the collateral on a pari passu basis. Some of the Series 2016A Bonds will be serial bonds, while others will be term bonds, with the term bonds subject to mandatory sinking fund payments. The issuer will have the option to redeem the Series 2016A Bonds with a legal final maturity date on or after [], in whole or in part and in any order, on and after []. All dates in this paragraph will be determined prior to closing.

Securitization Structure Description

Bond Structure

The issuer will make payments on the bonds semiannually, on June 15 and December 15 of each year, beginning in December 2016. Interest will be paid pro rata among the tranches.

All tranches of bonds will be paid pro rata if the bonds are accelerated following an event of default under the indenture. Partial payments of any scheduled payments will be allocated pro rata between tranches of bonds with the same legal final maturity date.

Optional Redemption

The issuer will not have the option to redeem the Series 2016A Bonds with a final maturity date prior to []. The issuer will have the option to redeem the Series 2016A Bonds with a final maturity date on or after [], in whole or in part and in any order, on and after [], at a redemption price of 100% of the principal amount of the Series 2016A Bonds to be redeemed, plus accrued interest to the redemption date. All dates in this paragraph will be determined prior to closing.

Indenture Accounts

The trustee will hold the collection account in its name and will deposit the restructuring charge collections and all other amounts it receives with respect to the collateral. The collection account will consist of five subaccounts: the general subaccount, the excess funds subaccount, the operating reserve subaccount, the debt service reserve subaccount and the upfront financing cost subaccount.

Payment Priority

On each semiannual payment date, or for items 1 through 4 below, on any business day, the trustee will pay or allocate, at the direction of the servicer, all amounts on deposit in the collection account in the following order of priority:

1. to the trustee, i) all fees, expenses and ii) any outstanding indemnity amounts not to exceed \$800,000 in each year;
2. to the servicer, the servicing fee and all prior unpaid servicing fees, capped at 0.60% of the aggregate principal balance of the bonds in each year;
3. to the administrator, the administration fee (\$100,000 per year) and all prior unpaid administration fees;
4. the payment of all other ongoing financing costs to the persons entitled to such payment;
5. to the bondholders, first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable bond interest rate) and second, interest due on such payment date;

6. to the bondholders, principal due and payable on the bonds as a result of an event of default and an acceleration of the bonds or on the legal final maturity date of a tranche of bonds;
7. to the bondholders, principal for such payment date, sequentially according to the related expected amortization schedule;
8. to the trustee, indemnity amounts in excess of \$800,000 in each year;
9. to the servicer, the servicing fee and all prior unpaid servicing fees in excess of 0.60% of the aggregate initial principal balance of the bonds in each year;
10. to the debt service reserve subaccount, the amount, if any, by which the required reserve level (1.5% of the aggregate outstanding principal balance of the bonds) exceeds the amount in the debt service reserve subaccount as of such payment date;
11. to the operating reserve subaccount, the amount, if any, by which the required operating reserve level (0.5% of the aggregate initial principal balance of the bonds) exceeds the amount in the operating reserve subaccount as of such payment date;
12. any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the debt service reserve subaccount and applied to clauses 5 through 7 above on the next payment date; and
13. to the excess funds subaccount, the balance, if any, for distribution on subsequent payment dates.

If funds in the general subaccount are insufficient to make the payments required under items 1 through 9, the trustee will first, draw from amounts in the excess funds subaccount and second, draw from amounts in the operating reserve subaccount, in each case, to make the payments required under items 1 through 9. In addition, if funds in the general subaccount, together with moneys available in the excess funds subaccount and the operating reserve subaccount, are insufficient to make the payments required under items 5 through 7, the trustee will draw from amounts in the debt service reserve subaccount, up to the amount of such shortfall. If funds in the general subaccount are insufficient to make the allocations under item 10, the trustee will draw from amounts in the excess funds subaccount to make such allocations.

The annual true-up adjustment will be calculated to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next annual true-up adjustment.

Events of Default

The Events of Default under the indenture are:

1. failure to pay interest or redemption price on any bond when due (after a five day cure period);
2. failure to pay principal of any tranche of a bond on the legal final maturity date for such tranche;
3. failure of the issuer to perform a covenant (after a cure period);
4. breach by the issuer of its representations or warranties (after a cure period); or
5. an action violating the financing order or state pledge.

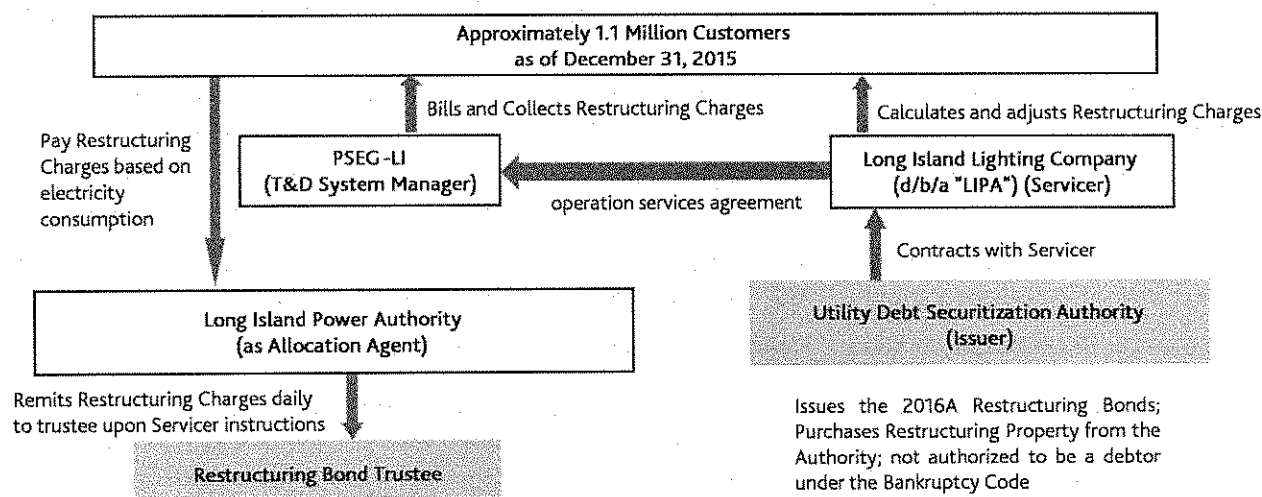
Securitization Structure Analysis

Securitization Parties and Responsibilities

Exhibit 13 provides a general summary of the key securitization parties, their roles and their various relationships to the other parties.

Exhibit 13

Securitization Parties and Responsibilities

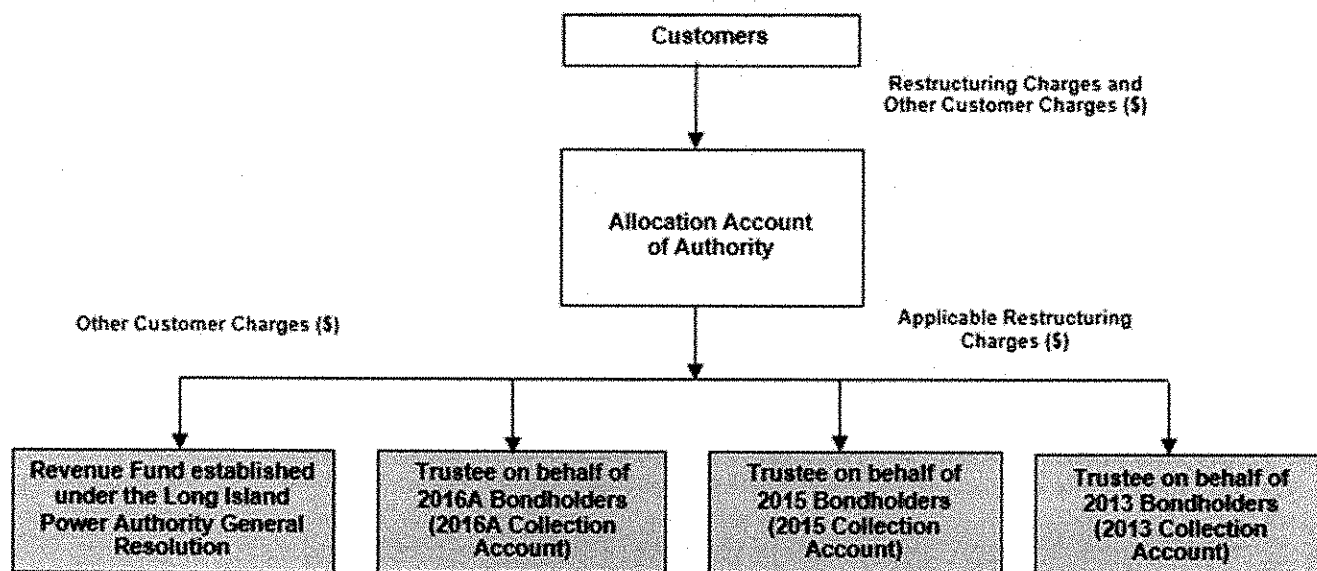


Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Flow of Funds

Exhibit 14 shows a general summary of the securitization's flow of funds: PSEG-LI will bill and collect the restructuring charges from LIPA's customers on behalf of the servicer. The servicer will be required to cause all customer payments (including restructuring charge collections) to be deposited into the allocation account, which LIPA established to hold all payments until the checks clear. Initially, the account will be held by J.P. Morgan Chase Bank. If customers make payments directly to the servicer instead of to the allocation account, the servicer must remit such payments to the allocation account within two business days' receipt by the servicer or LIPA. LIPA, as allocation agent, will control and administer the allocation account for the benefit of the trustee for the holders of the bonds and the trustee for the holders of LIPA bonds. On each business day, the allocation agent must transfer to the collection account the amount of restructuring charge collections that the servicer estimates to have been received and deposited into the allocation account on such day.

Exhibit 14
Flow of Funds



Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Legal Structure

The primary steps of the securitization are as follows:

1. The securitization law created the issuer, a bankruptcy-remote special purpose corporate municipal instrumentality, and a political subdivision and public benefit corporation of the State of New York. Under the securitization law, the issuer is not authorized to be a debtor under chapter 9 or any other provision of the Bankruptcy Code. The securitization law formed the issuer solely to purchase and own the restructuring property, to issue the bonds which are to be secured by the restructuring property, and to perform any activity incidental thereto. The issuer has no commercial operations.
2. The issuer will issue the bonds under an indenture with the trustee and will use the bond proceeds to purchase the restructuring property from LIPA and to pay the cost of issuing the bonds. The issuer will pledge the restructuring property to secure the bonds.
3. LIPA will use the proceeds from the sale of its restructuring property to retire certain of its outstanding debt. LIPA will act as the servicer of the restructuring property under a servicing agreement with the issuer and as the issuer's administrator under an administration agreement with the issuer. PSEG-LI will act as LIPA's service provider and will perform LIPA's key servicing duties under an operations servicing agreement with LIPA.

Sponsor and Seller

LIPA will be the securitization's sponsor and the seller of the restructuring property. LIPA is a corporate municipal instrumentality and a political subdivision of the State of New York, and is authorized to be a chapter 9 debtor pursuant to its enabling legislation.

LIPA took over as the retail supplier of electric service in the service area in 1998 by acquiring the Long Island Lighting Company (LILCO) as a wholly-owned subsidiary of LIPA through a merger. Since the merger, LILCO has done business under the name "LIPA." LIPA, acting through LILCO provides electric delivery service in the service area.

LIPA is governed by a Board of Trustees (LIPA Trustees) and is generally not regulated by the New York Public Service Commission (PSC) or the Federal Energy Regulatory Commission. LIPA is authorized under its enabling statute to set rates for electric service in the service area without obtaining the approval of the PSC or any other State regulatory body.

Pursuant to LILCO's organizational documents, LIPA conducts and manages LILCO's business and affairs. Accordingly, LILCO is controlled by LIPA.

LIPA and LILCO are parties to a financing agreement providing for their respective duties and obligations relating to the financing and operation of the retail electric business. Under the agreement, LILCO conducts the electric business in the service area and is responsible for providing service to customers in the service area. LIPA and LILCO are also parties to an administrative services agreement pursuant to which LIPA provides personnel, personnel-related services and other services necessary for LILCO to provide electric service in the service area.

To assist LIPA (acting through LILCO) in providing electric service in the service area, LIPA and LILCO have entered into operating agreements to provide them with the operating personnel and a significant portion of the power supply resources necessary for LILCO to continue to provide such electric service. From 1998 through 2013, National Grid plc, certain of its subsidiaries (National Grid subs) or their predecessors performed most such operations.

Beginning in 1998, a National Grid sub was the manager of LILCO's electric T&D system under a management services agreement which expired at the end of 2013. Beginning January 2014, PSEG-LI assumed the role from the National Grid sub. T&D system management services include, among other functions, the day-to-day operation and maintenance of the T&D system, customer service, billing and collection, meter reading and forecasting energy consumption.

In July 2013, New York Governor Andrew Cuomo signed the LIPA Reform Act, codified as Chapter 173, Laws of New York, into law. On March 30, 2015, the New York State Assembly and Senate adopted Chapter 58 of the Laws of New York, 2015, which amended the LIPA Reform Act to authorize the issuer to issue additional restructuring bonds. On April 13, 2015, the Governor signed Chapter 58 into law. On May 13, 2015, the time for filing any challenges to the LIPA Reform Act, as amended, expired and no such challenges were filed.

The LIPA Reform Act effectively shifted the major operational and policy-making responsibilities for the T&D system, including significant responsibilities relating to capital expenditures, budgets and emergency response, from LIPA to PSEG-LI. PSEG-LI's scope of services and LIPA's reserved rights have been adjusted to reflect the shift in operations, management and policy making responsibilities while enhancing LIPA's oversight rights. The LIPA Reform Act also requires that staffing be kept at levels only necessary to ensure that LIPA is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG-LI.

Methodology and Monitoring

The principal methodology used in this rating was Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges published in June 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moodys.com.

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

29 July 2016

Pre-Sale

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Estimated Closing Date

June 2016

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Utility Debt Securitization Authority Restructuring Bonds, Series 2016B

Long Island Power Authority-Sponsored Utility Cost Recovery Bonds

Capital Structure

Exhibit 1

Provisional (P) Ratings*

Series	Provisional Rating	Expected Amount	Tax Status	Coupon	Payment Frequency	Expected Maturity	Legal Final Maturity**
Series 2016B	(P)Aaa (sf)	\$475,000,000	Tax Exempt	Fixed	Semi-annual	12/15/2033	12/15/2035

The ratings address the expected loss posed to investors by the legal final maturity. In our opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Our ratings address only the credit risks associated with the transaction. Other non-credit risks are not addressed, but may have a significant effect on yield to investors.

* Principal amounts and legal maturity dates are preliminary and subject to change

** Reflects the latest legal maturity date among the tranches in the series

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Summary Rating Rationale

We have assigned provisional ratings to the single series of bonds (Series 2016B bonds, or the bonds) that Utility Debt Securitization Authority (the issuer) will issue. The Long Island Power Authority ("the Authority", Baa1 stable), which is a corporate municipal instrumentality and a political subdivision of the State of New York, is sponsoring the transaction. The Authority wholly owns the Long Island Lighting Company (doing business as "LIPA", the servicer), which provides electric transmission and distribution services in most of Nassau and Suffolk counties and a portion of Queens county. New York State legislation formed the issuer to securitize a special charge (the restructuring charge) imposed on the Authority's customers' utility bills. The Authority will use the proceeds of the securitization to retire a portion of its outstanding debt. The Series 2016B bonds will be the fourth utility cost recovery bonds sponsored by the Authority since 2013.

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 28 July 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

The primary collateral backing the Series 2016B bonds is the irrevocable contract right to impose, bill and collect nonbypassable consumption-based restructuring charges from all existing and future retail electric customers taking electric transmission or distribution service within the Authority's service area (the restructuring property). New York State legislation, along with an irrevocable financing order adopted by the Authority on June 26, 2015, authorizes the creation of the restructuring property.

Our provisional ratings on the bonds reflect our assessment of (1) the strength of the State of New York's legislation including the State's non-impairment pledge, which strongly protects the restructuring property backing the bonds; (2) the strength of the Authority's irrevocable financing order authorizing the creation of the restructuring property; (3) the size, stability and diversity of the ratepayer base in the Authority's service area; (4) the ability and experience of LIPA, who is responsible for the billing and collection of the restructuring charges, as the initial servicer of the restructuring property, and of PSEG Long Island LLC (PSEG-LI), who will perform LIPA's key servicing functions; and (5) the credit enhancement supporting the bonds in the form of a mandatory uncapped true-up mechanism that periodically adjusts the restructuring charges to ensure timely bond payments until the bonds are repaid in full, a non-declining operating reserve account and a debt service reserve account.

Credit Strengths

Strength of legislation and financing order: The State of New York's legislation (Part B of the LIPA Reform Act, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on August 14, 2015, permits the securitization and strongly protects the restructuring property securing the bonds. Similar to other utility cost recovery charge securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of New York pledges to bondholders that it will not (1) take or permit any action that limits, alters or impairs the value of restructuring property; or (2) reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full, except as required by the adjustment mechanism described in the restructuring cost financing order (the state pledge). In addition, the securitization and financing order contain the typical true-sale and security interest provisions.

The Authority's irrevocable financing order authorizes the Authority to recover specified costs of retiring its corporate debt by collecting restructuring charges. The restructuring property grants the issuer the irrevocable right to impose, bill and collect irrevocable, nonbypassable restructuring charges based on electricity usage, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full. Nonbypassable refers to the requirement that the charges be levied on all of the Authority's existing and future retail electric customers receiving transmission and distribution services in its service area, including customers of any Authority successor or assignee.

True-up adjustment mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts restructuring charges annually and, if necessary, semiannually, to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments at any time if the servicer deems necessary to ensure timely bond payments. The servicer may also elect to perform a voluntary mid-year true-up adjustment to decrease charges to customers to correct for overcollections in any year (in addition to the requirement that the servicer perform a mandatory mid-year adjustment to increase charges to customers to correct for undercollections). This voluntary mid-year adjustment helps reduce the volatility of the restructuring charge to customers. The inclusion of an operating reserve account and a debt service account provide sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between true-ups.

Affluent ratepayer base: The size, economic stability and diversity of the ratepayer base in the Authority's service area are credit strengths. The service area is fixed by the securitization law and primarily includes the Long Island counties of Nassau and Suffolk, which are two of the most affluent counties in the United States. The service area primarily includes a mix of residential customers (54% by revenue) and commercial customers (43% by revenue).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Experienced servicer: LIPA has considerable prior servicing experience with restructuring charges, including acting as servicer for the Authority's three outstanding utility cost recovery charge securitizations.

Although LIPA is the named servicer for this securitization, PSEG Long Island LLC (PSEG-LI, unrated), a subsidiary of Public Service Enterprise Group Incorporated (Baa2, positive), will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among others. PSEG-LI currently performs these same functions for the three outstanding utility cost recovery charge securitizations sponsored by the Authority. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

Credit Challenges

Challenges to securitization law and financing order: Potential state and federal legislative and regulatory actions could weaken the strength of the legal protections of the restructuring property. However, we view this risk as remote. New York does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to repeal or amend the securitization law, or for the Authority to amend or revoke the financing order, would be through a legislative action which would violate the state pledge. The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered. Several past challenges to securitization laws such as this in other jurisdictions have been unsuccessful.

Potential for insufficient collections: Collections arising from the restructuring property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration, self-generation and storm damage. The Authority's estimates of market demand, energy prices and growth within its service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, by which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments are required to occur annually and can occur semi-annually and at the discretion of the servicer on an interim basis as needed.

Relatively high restructuring charge: The Authority expects the securitization's initial restructuring charge to represent around 2.55% of the total monthly bill that a 1,000 kilowatt hour (kWh) residential customer in the Authority's service area will receive as of June 15, 2017. The initial restructuring charge for the 2016B transaction, combined with the current restructuring charge for the 2013, 2015 and 2016A transactions, is expected to represent approximately 7.8% of a 1,000 kWh residential customer's bill. This percentage charge is relatively high compared to charges in other utility cost recovery bond transactions. For context, the three most recent utility cost recovery bond issuances we rated, Duke Energy Florida Project Finance, LLC, Entergy New Orleans Storm Recovery Funding I, LLC, and the Louisiana Utilities Restoration Corporation Project/ ELL, had a cumulative (including prior utility cost recovery charges to the same customer base) initial recovery charge amounting to 2.5%, 2.5%, and 3.7% of a 1,000 kWh residential bill, respectively. A high cumulative recovery charge could incentivize a legal challenge to the restructuring charges or the securitization law, or could increase political pressure to rescind or change the securitization law through legislation. This concern is mitigated by the Authority's securitization offset rider, which reduces the Authority's delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

Key Characteristics

Asset Characteristics (as of 15 June 2016)

Exhibit 2

Asset Characteristics

Assets:	Restructuring property, which consists of all rights and interest of the issuer under the financing order, including the right to impose, bill, collect and receive irrevocable, binding, nonbypassable charges based on the usage of electricity from all existing or future customers receiving transmission or distribution service from the Authority or its successors or assignees
Service Area:	The Authority's service area covers approximately 1.1 million residential, commercial customers in Nassau and Suffolk counties* and the Rockaway Peninsula

*Excludes the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Securitization Structure Characteristics

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Tax-exempt, fixed rate bonds with semi-annual payments
Amount:	\$475,000,000*
Structure:	Discrete trust
Credit Enhancement:	Mandatory uncapped true-up mechanism; operating reserve account (0.5%); debt service reserve account (1.5%)
Transaction Parties	
Sponsor/Depositor/Servicer:	Long Island Power Authority (Baa1 stable)
Issuer:	Utility Debt Securitization Authority
Transmission and Distribution System Manager:	PSEG Long Island LLC (unrated)
Trustee:	The Bank of New York Mellon Trust Company, National Association (Aa1/Aa2 stable, a1)**

*Preliminary and subject to change based on market conditions

**The bank ratings shown in this report are the banks' deposit ratings and senior unsecured debt ratings and outlooks, and their baseline credit assessments

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Assets Overview

The collateral for this pool is the restructuring property, consisting of the irrevocable contract right to impose, bill and collect nonbypassable consumption-based restructuring charges from all existing and future retail electric customers taking electric transmission or distribution service within the Authority's service area.

The bonds are also secured by funds on deposit in the collection account, including the debt service reserve subaccount and the excess funds subaccount, by the issuer's rights under the various transaction documents, by the issuer's right to compel the servicer to file for and obtain true-up adjustments, and by all payments on or under the pledged collateral and by all proceeds with respect to the pledged collateral.

Assets Description

The Securitization Law

The purpose of the securitization law is to create the issuer and allow the Authority to finance the retirement of a portion of its outstanding debt through the issuance of restructuring bonds by the issuer, resulting in savings to the Authority's customers on a net present value basis. The securitization law gives the Authority the right to impose restructuring charges, which is the key asset backing this securitization.

The securitization law, coupled with the adoption of additional financing orders, authorizes the Authority to create additional restructuring property as collateral for the issuance of bonds. The Authority will use this issuance to retire a portion of its outstanding debt and financing costs, including the costs of issuing, supporting and servicing the bonds. The current financing order allows for an aggregate amount not to exceed \$4.5 billion (inclusive of the previously-issued bonds: \$2,022,324,000 in 2013, \$1,002,115,100 in 2015 and \$636,770,000 in 2016). After the Series 2016B issuance, the issuer has capacity issue an additional \$363.8 million of restructuring bonds under the initial authorization.

Similar to other utility cost recovery charge securitizations, this securitization benefits from the securitization law's inclusion of a state non-impairment pledge, subject to the true-up mechanism, that is incorporated into the securitization documents for the benefit of the trustee on behalf of bondholders. A breach of such pledge triggers an event of default under the indenture.

The Financing Order

On June 26, 2015, the Authority adopted Financing Order No. 4 (the financing order), together with Financing Order No. 2 and Financing Order No. 3; all of which were approved by the New York Public Authorities Control Board on July 15, 2015. On August 14, 2015, the financing orders became irrevocable, final and non-appealable. Each financing order authorizes restructuring bonds that will be secured by a separate restructuring property that would be created pursuant to that financing order.

Similarly, the Series 2013 restructuring bonds that the issuer issued pursuant to Financing Order No. 1 are secured by the 2013 restructuring property, the Series 2015 restructuring bonds that the issuer issued pursuant to Financing Order No. 2 are secured by the 2015 restructuring property and the Series 2016A restructuring bonds that the issuer issued pursuant to Financing Order No. 3 are secured by the 2016A restructuring property.

The issuer is issuing the bonds pursuant to the financing order, which authorizes: 1) the creation of the restructuring property; 2) the Authority to sell the restructuring property to the issuer under the financing order (the restructuring property is created simultaneous with its sale to the issuer); 3) the imposition, billing and collection of restructuring charges on, to and from the customers in the service area; 4) the issuance of the bonds by the issuer; 5) the issuer to use the bond proceeds to purchase the restructuring property from the Authority and pay upfront financing costs; and 6) the Authority to use the proceeds of the sale of the restructuring property to retire a portion of its outstanding debt.

The securitization law provides that the financing order is irrevocable and is not subject to modification or termination. The financing order acknowledges the state pledge.

Prior to the issuance of the bonds, the financing order requires the servicer to file an issuance advice letter with the Authority setting forth: 1) the expected savings to customers from the securitization; 2) the estimated ongoing financing costs; 3) the initial restructuring charge; and 4) the final terms of the bonds. The financing order authorizes a designee of the Authority to review and approve the

issuance advice letter for the purpose of confirming that the stated terms are consistent with the financing order. The designee's approval will be final and incontestable.

The State Pledge

The securitization law includes a pledge from the State of New York to the bondholders that it will not (1) take or permit any action that limits, alters or impairs the value of restructuring property; or (2) reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full, except as required by the adjustment mechanism described in the restructuring cost financing order.

Any action of the New York legislature adversely affecting the restructuring charges or the ability to impose, charge or collect the restructuring charges would likely require the State of New York to pay just compensation under the "takings clause" of the United States and State of New York Constitutions.

The state pledge provides protection to bondholders. To the extent the Authority or the State of New York have obligations under the financing order (e.g. to file for true-up adjustments), the securitization law provides that the owner of the restructuring property (the issuer), or the trustee representing the bondholders, are expressly permitted to bring actions for enforcement of the financing order.

The Restructuring Charges

Under the financing order, the servicer (on behalf of the issuer as owner of the restructuring property) has the right to impose, bill and collect irrevocable and nonbypassable restructuring charges from all of the Authority's customers in an amount sufficient to: 1) pay interest on the bonds when due and principal of each tranche of bonds according to the related expected amortization schedule; 2) pay the fees and expenses of the securitizations' service providers; and 3) replenish the operating reserve and debt service reserve subaccounts to the required levels.

There is no cap on the level of restructuring charges that the servicer may impose on ratepayers through the true-up adjustment mechanism. This is designed to ensure the expected collection of amounts sufficient to timely pay the amounts specified above. Accordingly, the restructuring charges may continue to be imposed and collected until the bonds are repaid in full, without any specified time limit.

The financing order authorizes the servicer to collect restructuring charges directly from the Authority's customers. The restructuring charge will be the same for all customer classes. Under the securitization law, the charges and any adjustments thereto are not subject to review or regulation by the New York State Department of Public Service, the staff arm of the New York Public Service Commission.

The restructuring charges are nonbypassable; "nonbypassable" as set forth in the securitization law and the financing order means that the customer is obligated to pay the restructuring charges (and may not legally avoid payment of such charges) as long as such customer is connected to the transmission and distribution (T&D) system assets (the Authority's delivery system, which includes transmission and distribution lines and substations) and is taking electric delivery service in the service area, even if such customer produces its own electricity or purchases electric generation services from a provider of electric generation services other than the owner of the T&D system assets and even if the Authority no longer owns the T&D system assets. Thus, the only way customers can avoid restructuring charges is if they are fully cut off from the T&D system assets.

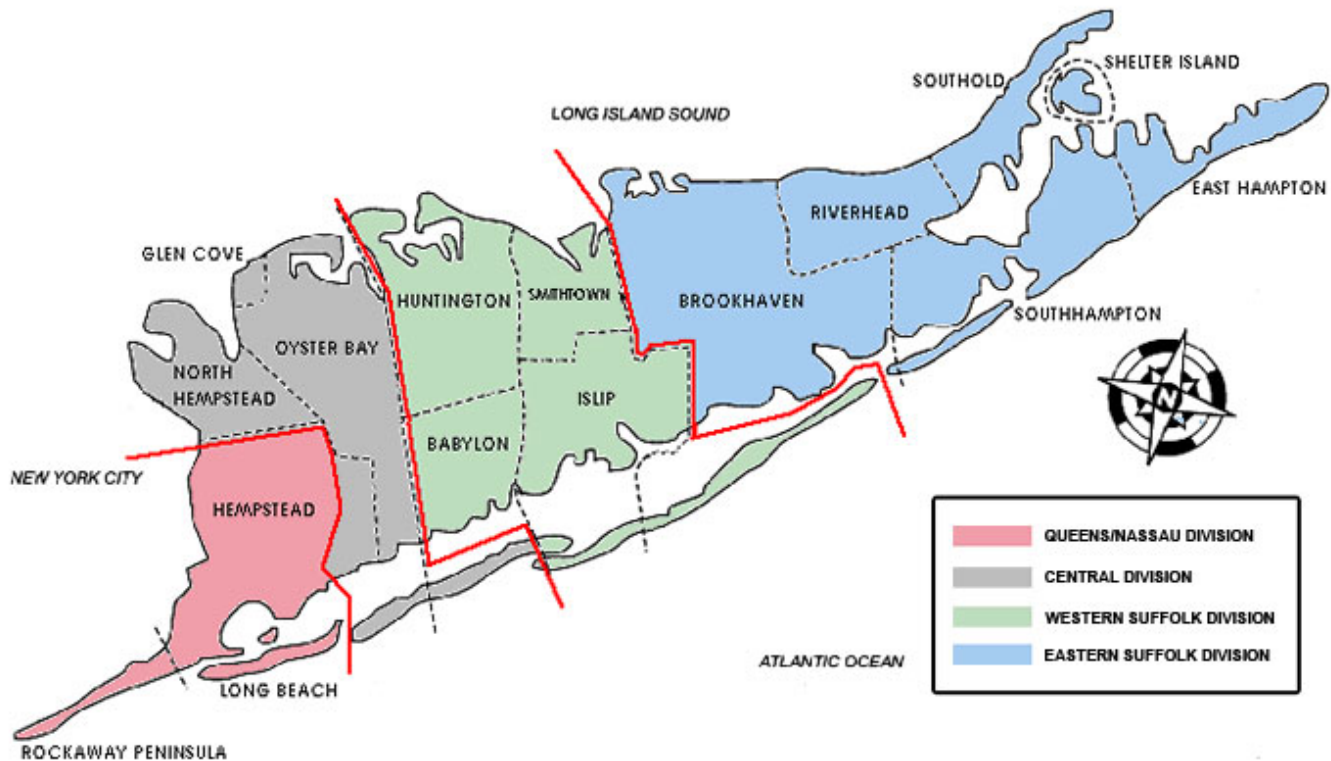
The Service Area

The Authority provides electric T&D services in its service area which includes two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. The population of the service area is around three million.

The securitization law defines the service area as the geographical area within which the Authority provided electric T&D services as of July 29, 2013. Thus, the service area is fixed by the legislation.

As of December 31, 2015, the service area included approximately 1.1 million customers. In 2015, retail electric usage was 54.4% residential, 43.5% commercial, 0.7% street lighting and 1.5% other public authorities. Exhibit 4 below shows the service area.

Exhibit 4

LIPA Service Area

Source: PSEG-LI website

Statutory Uncapped True-Up Adjustment Mechanism

Under the securitization law and the financing order, the servicer will adjust the restructuring charges through the securitization's true-up mechanism to ensure timely bond payments. The adjustments to the charges will continue until the bonds are repaid in full and there is no cap on the amount of charges that may be imposed on customers resulting from the adjustments.

The mechanics of the true-up adjustments are as follows:

1. Initial true-up adjustment to the restructuring charges will be made on November 15, 2016
2. Standard mandatory annual adjustments to the restructuring charges to correct for any over-collections or under-collections to date and anticipated to be experienced up to the date of the next annual adjustment and to ensure that the expected collections are sufficient to timely pay interest and scheduled principal (according to the expected amortization schedule) on the bonds and all other ongoing financing costs
3. Mandatory semiannual adjustments to the restructuring charges only if the servicer forecasts that charge collections will be insufficient to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
4. Voluntary semiannual adjustments to decrease the restructuring charges to customers if the servicer forecasts that charge collections will be greater than the amount required to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs

5. More frequent adjustments at any time without limits as to the frequency to ensure that the expected charge collections are adequate to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
6. After the last scheduled maturity date of the bonds (of any series), quarterly adjustments to ensure that charge collections will be sufficient to timely pay interest and principal on the next payment date, in addition to all other ongoing financing costs; the adjustments will be set at levels estimated to generate revenues sufficient to fully repay the bonds on the next payment date, plus all other ongoing financing costs

All adjustments will be designed to cause: 1) the outstanding principal balance of the bonds (or any series of bonds) to be equal to the scheduled balance (based on the expected amortization schedule); 2) the amount in the operating reserve and debt service reserve subaccounts to be equal to the required levels; and 3) with respect to the annual true-up only, any amount in the excess funds subaccount to be equal to zero by the payment date immediately preceding the effective date of the next annual adjustment.

Servicing

LIPA, acting as servicer under the servicing agreement, or any successor servicer as the financing order provides, will be responsible for servicing the restructuring property, including: 1) obtaining meter reads; 2) forecasting electricity usage; 3) calculating, billing and collecting the restructuring charges; 4) processing, accounting for and depositing charge collections and making periodic remittances; 5) calculating and implementing the true-up adjustments to the restructuring charges; 6) investigating and handling delinquencies and selling defaulted or written off accounts; 7) responding to inquiries from customers, the Authority, or any governmental authority regarding the restructuring property and the restructuring charges; and 8) furnishing periodic reports and statements.

Although LIPA is the named servicer for this securitization, PSEG-LI, a subsidiary of Public Service Enterprise Group Incorporated (PSEG, Baa2 positive), will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting the restructuring charges, meter reading and forecasting electricity usage, among others. PSEG is a publicly traded energy and energy services company. As of December 31, 2015, it had total assets of approximately \$37.5 billion, last twelve months revenues of approximately \$10.4 billion; and employed approximately 13,000 people. PSEG is the parent holding company of PSEG Power LLC, New Jersey's largest wholesale merchant generator with approximately 13.1 GW of capacity; Public Service Electric and Gas Company, New Jersey's largest regulated electric and gas T&D utility; and PSEG Energy Holdings L.L.C., which owns a portfolio of leveraged leases and is also pursuing investments in renewable generation.

There is no named backup servicer at closing though the financing order allows for a replacement servicer if the current servicer defaults in its performance obligations. In addition, the financing order allows the servicing fee to step-up from 0.05% to 0.60% of the initial principal balance of the bonds if LIPA is replaced as servicer by a successor servicer not affiliated with the owner of the T&D system assets.

Billing

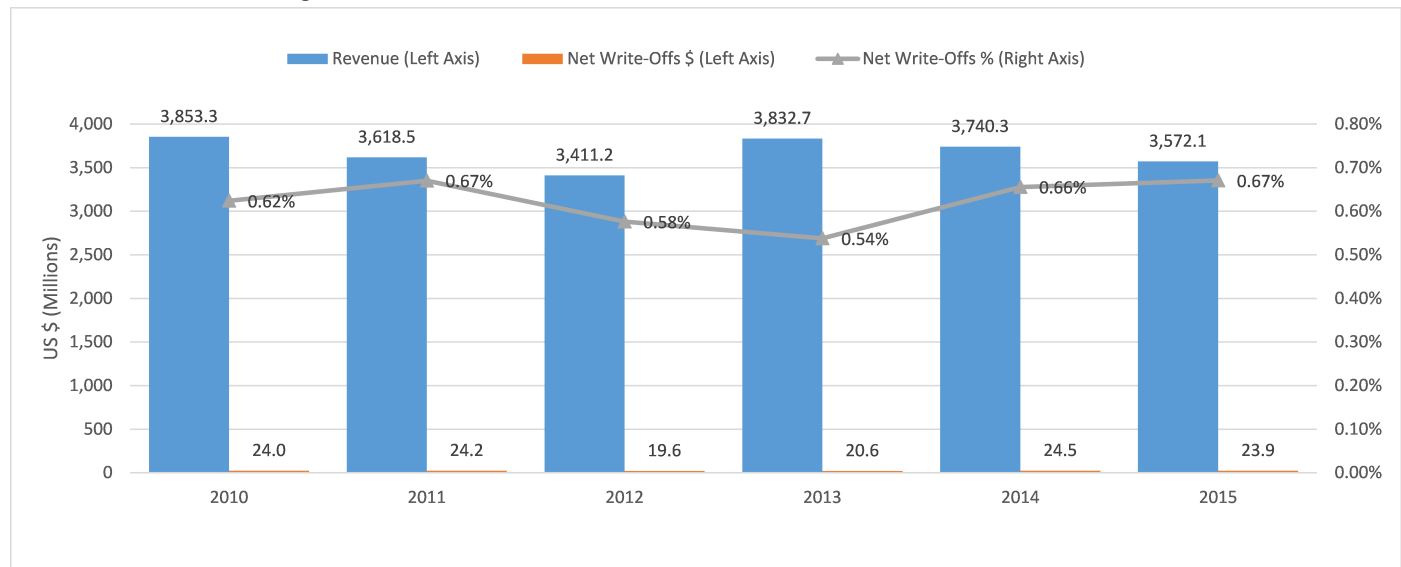
PSEG-LI will perform LIPA's duties of billing and collecting the restructuring charges, meter reading and forecasting electricity usage. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

Under the securitization law and the financing order, if and to the extent that third parties are allowed to bill and/or collect any restructuring charges in the future while the bonds are outstanding, LIPA, any successor servicer, and any owner of the T&D system assets will take steps to ensure nonbypassability and minimize the likelihood of default by third-party billers. Further, LIPA and any successor servicer will not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the current ratings on the bonds.

The provision of electric service to customers by LIPA is governed by the Home Energy Fair Practices Act (HEFPA). LIPA's credit and collections practices, including the ability to terminate (disconnect) service, are governed by HEFPA.

Exhibit 5 below shows net write-offs since 2010, which have ranged from a low of 54bps of billed revenue in 2013 to a peak of 67bps in 2011 and 2015.

Exhibit 5

Net Write-Offs as a Percentage of Billed Retail Revenues

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Exhibit 6 below shows LIPA customer delinquency data since 2010.

Exhibit 6

Average Monthly Delinquencies as a Percentage of Total Billed Revenues

	2010	2011	2012	2013	2014	2015
30-59 days	1.40%	1.46%	1.48%	1.54%	1.34%	1.20%
60-89 days	0.73%	0.80%	0.82%	0.84%	0.67%	0.59%
90+ days	2.43%	2.82%	3.42%	3.54%	2.31%	2.46%
Total	4.56%	5.08%	5.72%	5.93%	4.31%	4.25%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Assets Analysis

Legal Analysis

Under the laws of New York and the United States, New York could not constitutionally take any legislative action, including the repeal or amendment of the securitization law, which would substantially limit, alter or impair the restructuring property or other rights vested in the bondholders pursuant to the financing order or substantially limit, alter, impair or reduce the value or amount of the restructuring property, unless (1) such action is a reasonable exercise of the State of New York's sovereign powers that appropriately furthers a legitimate public purpose; and (2) if such action constituted a permanent appropriation of the bondholders' substantial property interest in the restructuring property and deprived them of their reasonable expectations arising from their investments in the bonds, under the takings clauses of the federal and New York Constitutions, New York could not take such action without paying just compensation to the bondholders as determined by a court of competent jurisdiction.

New York does not have a referendum or initiative process by which the securitization law may be challenged. Therefore, the only way for the securitization law to be changed would be through a legislative action which would be subject to the state pledge.

Bondholders (or the trustee acting on their behalf) could challenge under the Contract Clause of the United States Constitution the constitutionality of any repeal or amendment of the securitization law or any other action or failure to take any action required by the state pledge that limits, alters or reduces the value of the restructuring property or the restructuring charges before the bonds are repaid in full, unless such action is necessary to further a significant and legitimate public purpose.

Under existing case law, assuming the takings clause applies under the federal and New York Constitutions, respectively, the State of New York would likely be required to pay just compensation to the bondholders if the State undertook a repeal or amendment of the securitization law or took any other action or failed to take any action required by the state pledge before the bonds are repaid in full that: 1) permanently appropriates the related restructuring property or denies all economically productive use of the related restructuring property; 2) destroys the restructuring property, other than in response to emergency conditions; or 3) substantially reduces, alters or impairs the value of the restructuring property so as to unduly interfere with the bondholders' reasonable expectations arising from their investments in the bonds.

The financing order provides that the restructuring property may be pledged to secure the payment of the bonds, financing costs, and other amounts owed. The securitization law provides that a valid and enforceable security interest in the restructuring property will attach and be perfected at the time the pledge is made. The lien and security interest attach without any physical delivery of collateral or other act. The securitization law provides that the pledge is continuously perfected and has priority over any other lien created by the operation of law or otherwise that may be created subsequently.

Strong Service Area

Long Island's economy benefits from a highly skilled labor force, close proximity to New York City, more than 20 colleges and universities and core research institutions.

Long Island's median household income is substantially above that of New York State and the US. According to estimates from the US Census Bureau, the 2014 median household income for Nassau County and Suffolk County was \$99,035 and \$86,266, respectively, considerably higher than the \$58,878 for New York State and the \$54,562 for the US. According to the Authority, while the cost of electricity in the service area is higher than the national average, the cost of electricity as a percentage of income is below the national average.

Exhibit 7 below shows the percentage of total billed revenue attributable to each customer class since 2004.

Exhibit 7

Sales by Revenue Class (% of Total Billed Revenue)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	51.5%	52.8%	52.2%	52.4%	53.2%	53.2%	54.1%	53.8%	54.2%	54.4%	53.4%	54.4%
Commercial	46.6%	45.1%	45.7%	45.4%	44.5%	44.5%	43.8%	43.9%	43.7%	44.6%	44.0%	43.5%
Street Lighting	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	1.1%	0.7%
Other Public Authorities	1.1%	1.4%	1.3%	1.4%	1.5%	1.5%	1.3%	1.5%	1.4%	0.3%	1.5%	1.5%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

For the twelve months ending on June 30, 2016, the ten largest retail electric customers represented approximately 5.7% of the Authority's retail kilowatt-hour sales resulting in 4.8% of revenues. As of the closing date, no customer or group of related commercial is exempt from paying the restructuring charges. Exhibit 8 below shows the energy usage and revenue from the top 10 commercial customers.

Exhibit 8

Top 10 LIPA Commercial Customers

	Industry	Energy Usage (GWh)	% of Total Energy Usage	Revenues (\$000)	% of Total Revenues
1	State Public Transportation	303.8	1.52%	\$45,428,220	1.32%
2	Telecommunications	145.7	0.73%	\$22,870,878	0.67%
3	Nas/Suf County Govt Twnsps	132.6	0.67%	\$20,800,037	0.61%
4	Water Districts	122.7	0.62%	\$20,598,940	0.60%
5	Health Services-Hospitals	120.0	0.60%	\$17,580,632	0.51%
6	Retail Food	102.6	0.51%	\$16,725,102	0.49%
7	Real Estate/Developers	66.9	0.34%	\$5,284,931	0.15%
8	Nassau Universities	51.0	0.26%	\$7,354,337	0.21%
9	Manufacturing	43.7	0.22%	\$4,489,759	0.13%
10	Retail Non-Food	36.4	0.18%	\$3,726,650	0.11%
	Total	1,125	5.65%	164,859,486	4.81%

Source: Utility Debt Securitization Authority

Remote Risk of Severe Ratepayer Base Declines

The Series 2016B bonds are exposed to the risk of declines in the ratepayer base in the service area. However, declines in the ratepayer base dramatic enough to impact the rating of the bonds are unlikely given the size, projected population growth and economic stability of the service area's stable ratepayer base. We view the risks to the transaction of ratepayer base declines due to any of these factors to be low.

Self-Generation

We look at the potential for increased use of self-generation as a minor headwind to the transaction. Self-generation, which primarily includes solar, reduces the ratepayer base and increases the burden of restructuring charges on other non-self-generating ratepayers. Customers that self-generate will only be responsible for paying restructuring charges based upon their net-billed consumption. The securitization law and financing order do not provide for exit fees to be charged to any customers that might leave the grid to self-generate.

Change in Service Area

We look at the risk of a ratepayer base decline due to a change in the service area to be minimal. The restructuring charge will be recoverable from all customers taking T&D service. As of July 29, 2013, the securitization law defines the service area to include two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. Thus, the service area is fixed by the legislation. If the service area expands in the future, the new customers would be subject to the restructuring charge on a going-forward basis.

Municipalization

We view the risk to the ratepayer base due to municipalization as low due to the nonbypassability of the charges. Moreover, municipalization would not affect restructuring charge collections since a successor and its customers will be subject to the restructuring charges, even if the T&D system assets are no longer owned by the Authority. Since 1998, no municipalizations have occurred in the service area.

Storm Damage

We view the risk of reduced collections due to weather to be low, and substantially mitigated via the true-up mechanism. Hurricanes, tropical storms or wind storms may impact the Authority's operations, temporarily interrupting transmission, distribution and consumption of electricity, hence reducing the collections of restructuring charges. There might be longer-lasting weather-related adverse effects on residential and commercial development and economic activity in the Authority's service area, which could cause the per-kWh restructuring charge to be greater than expected.

Forecasting Electricity Consumption

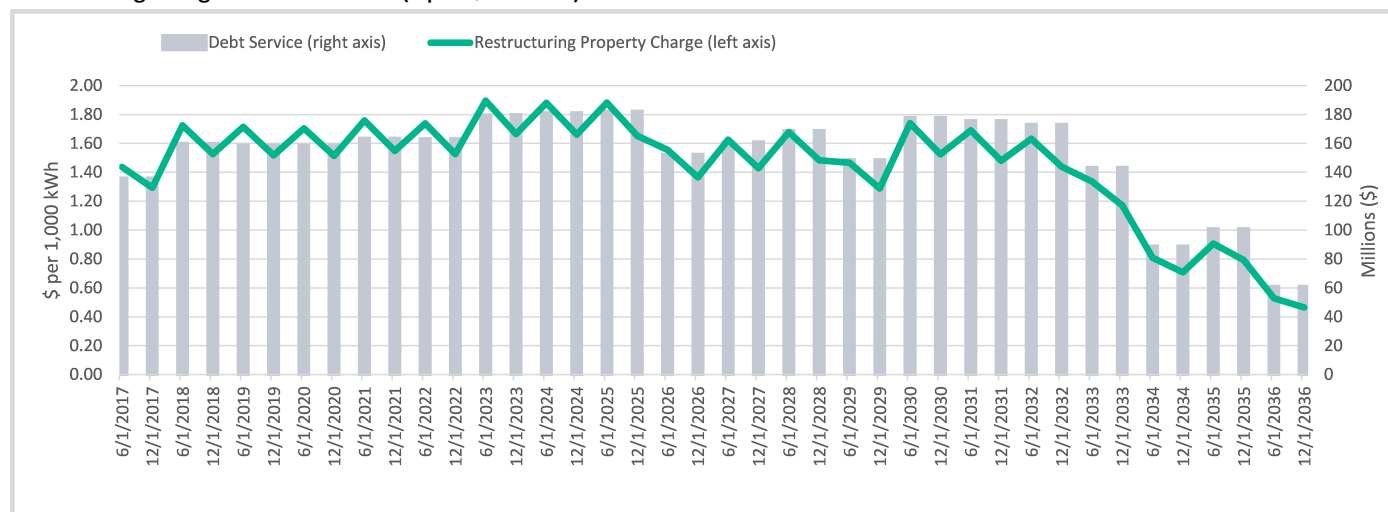
The Authority's internal company forecasts are used for projections of electricity price and weather conditions. The forecast incorporates customer usage, delinquencies and write-offs, among other inputs.

The Authority assesses the restructuring charges based on its forecasts of customer usage. The amount and the rate of restructuring charge collections will depend in part on actual electricity consumption and the amount of collections and write-offs.

Exhibit 9 below shows the forecasted restructuring charge per 1,000 kWh and scheduled debt service payments.

Exhibit 9

Restructuring Charge and Debt Service (\$ per 1,000 kWh)*



*Preliminary and subject to change based on market conditions

Source: Utility Debt Securitization Authority; Moody's calculations

Forecast Variance

For there to be insufficient funds to pay ultimate principal and timely interest on the bonds, there would need to be unexpected, persistent and extensive drops in electricity consumption. Additionally, there may be insufficient funds if the servicer inaccurately forecasts electricity consumption or uses inaccurate customer delinquency or charge-off data when setting or adjusting the 2016B restructuring charges. We view this risk as remote, as the maximum forecast variance since 2011 has been less than 6% per customer category, as shown in Exhibit 10.

Exhibit 10

Annual Forecast Variance for Ultimate Electric Delivery (% of Forecast)

	2011	2012	2013	2014	2015
Residential	4.31%	-2.37%	-2.69%	-4.28%	0.51%
Commercial	-1.00%	-3.59%	-2.39%	-1.70%	-2.07%
Street Lighting	0.17%	-2.19%	-4.44%	1.71%	-3.81%
Other Government	5.49%	-13.64%	-4.20%	3.13%	2.49%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016

Cash Flow Analysis

We examined the cash flows that the restructuring charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the restructuring charges can go as a percentage of a 1,000 kWh residential customer's bill and also to illustrate how the restructuring charges behave under various stress scenarios of customer demand. Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm that the level of the restructuring charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the restructuring charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. Such challenge is more likely the higher the charges, i.e., the more the economic incentive for a challenge, or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the restructuring charge, both in absolute terms and as a percentage of the customer's energy bill. In our more extreme scenarios, the percentage of a residential customer's monthly bill devoted to the restructuring charge is as high as 22.74%, higher than most other utility cost recovery charge securitizations. This concern is mitigated by the Authority's securitization offset rider, which reduces the delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

The Authority expects the combined initial restructuring charge for the 2013, 2015, 2016A and 2016B transactions to be around 7.8% of the total monthly bill that an average 1,000 kWh residential customer in the service area would receive as of June 15, 2017, which is higher than most other utility cost recovery charge securitizations we rate. The 7.8% is preliminary and subject to change based on market conditions.

We looked at three scenarios:

Scenario Description and Projected Output**Base Scenario**

1. Electricity consumption as per the Authority's projections
2. Implied net charge-offs of 0.62%
3. Collection curve projects 20.0% of collections within 30 days and 80.0% of collections between 30-60 days
4. Servicing fee is 0.05% on an annualized basis of the original principal amount of bonds so long as the servicer remains LIPA or an affiliate. While a back-up servicer has not been retained, the issuer can increase servicing fees to 0.60% to attract one if needed.

Stress Scenario 1

1. Electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers
2. Annual net charge-offs are the same as in base case
3. Collection curve is the same as in base case

4. Loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year
5. Replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case

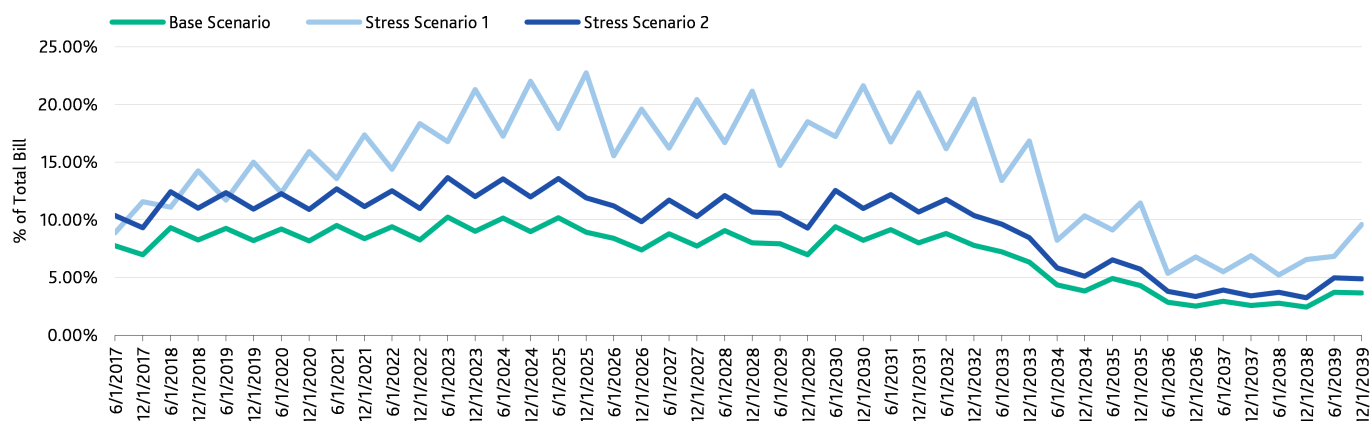
Stress Scenario 2

1. Electricity consumption is reduced by 25% permanently against the first year base case projection
2. Annual net charge-offs the same as in base case
3. Collection curve is the same as in base case
4. Servicing fee and all other fees the same as in base case

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 11 shows the projected restructuring charge as a percentage of a 1,000 kWh residential customer's total bill, and Exhibit 12 shows the projected restructuring charges for customers per 1,000 kWh over the securitization's life. The periodic variance in the charges under the stress scenarios is due to the semiannual true-ups capturing seasonality in electricity usage.

Exhibit 11

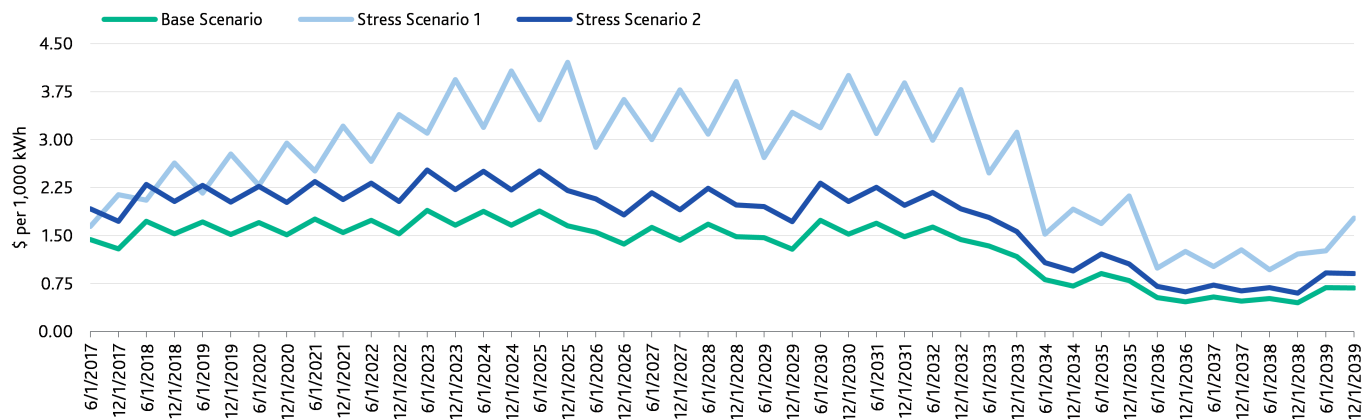
Projected Restructuring Charge as a Percentage of a Customer's Total Bill



Source: Utility Debt Securitization Authority; Moody's calculations

Exhibit 12

Projected Restructuring Charge (\$ per 1,000 kWh)



Source: Utility Debt Securitization Authority; Moody's calculations

Comparables

As shown in Exhibit 13, stress scenario 1 is more stressful and results in a peak restructuring charge equal to about 22.74% of a 1,000 kWh per month customer's bill. This is high compared to other utility cost recovery deals.

Exhibit 13

Maximum Recovery Charge Comparison (% of a 1,000 kWh Customer's Bill)

Deal name	Base	Stress1	Stress2
UDSA 2016B	10.25%	22.74%	13.66%
UDSA 2016A	7.21%	16.04%	10.40%
DEF 2016-1	2.65%	6.94%	4.73%
UDSA 2015	7.00%	12.32%	7.89%

Source: Moody's

Securitization Structure Overview

On the closing date, the Authority will sell the restructuring property to the issuer pursuant to a sale agreement between the issuer and the Authority. LIPA will be the servicer of the restructuring property. PSEG-LI will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among others.

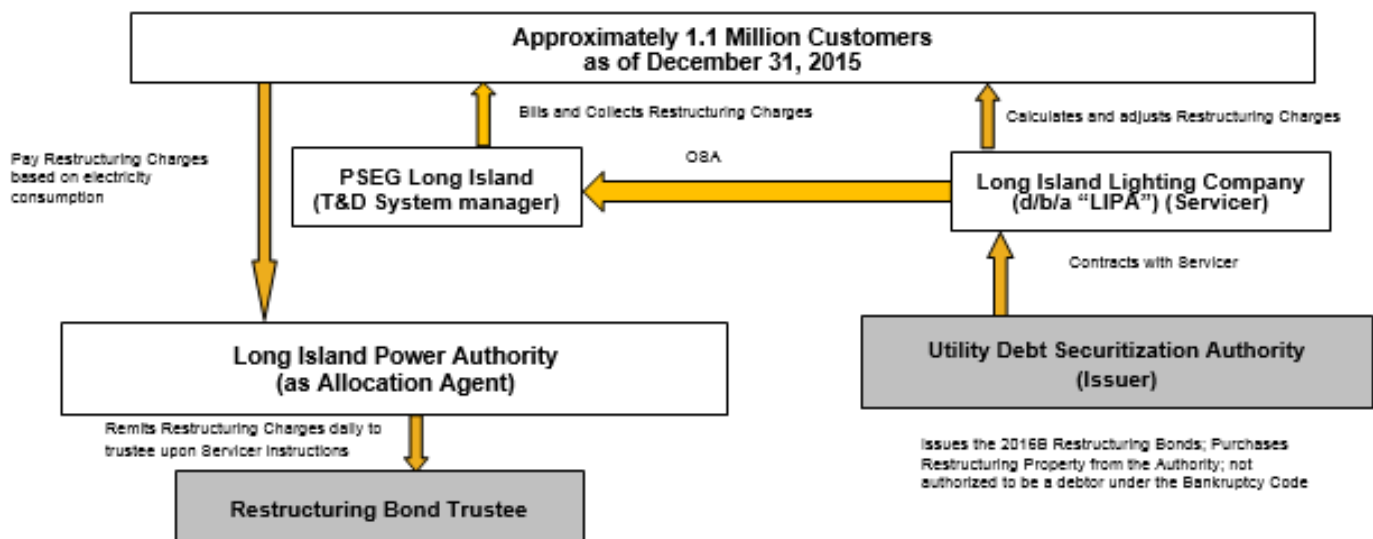
Securitization Structure Description

Structural Diagram

Exhibit 14 below illustrates the relationships between the transaction parties and bondholders.

Exhibit 14

Structural Diagram



Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016

1. The issuer purchases the restructuring property from the Authority and issues the Series 2016B bonds
2. The issuer contracts with LIPA as servicer to calculate and adjust the restructuring charges
3. LIPA contracts with PSEG-LI to bill and collect the restructuring charges

4. Electric utility customers pay restructuring charge on electricity bills based on electricity consumption
5. The Authority, as allocation agent, remits the restructuring charges to the trustee on a daily basis

Detailed Description of the Structure

Credit Enhancement

Credit enhancement for the bonds will be provided by the true-up mechanism, as well as by the debt service reserve account. The primary purpose of the excess funds subaccount is not to provide credit enhancement for the bonds but to hold funds collected in amounts that were more than necessary to pay current debt service. However, amounts in the excess funds subaccount may be used to make debt service payments on the bonds when needed.

Operating Reserve Account

On or before the date of issuance of the bonds, the Authority will deliver to the trustee for deposit into the operating reserve account an amount not less than 0.50% of the initial aggregate principal amount of the Series 2016B bonds. Amounts may be withdrawn from the account to pay scheduled principal on the Series 2016B bonds, provided however that an amount not less than 0.50% remains on deposit in the account.

Debt Service Reserve Account

On or before the date of issuance of the bonds, the issuer will make a capital contribution to the trustee in an amount not less than 1.5% of the aggregate outstanding principal amount of the bonds, which will be deposited in the debt service reserve account. Under the financing order, any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the subaccount and applied to subsequent payments.

Cash Commingling

The servicer is entitled to commingle the restructuring charges that it receives with its own funds until it remits the funds to the indenture trustee on a daily basis. The securitization law provides that the priority of a lien and security interest is not impaired by the commingling of funds arising from restructuring charges with other funds.

No less often than annually, the servicer and the indenture trustee will reconcile remittances of estimated recovery charge collections with actual payments received. To the extent the remittances of estimated payments exceed the amounts that should have been remitted, the servicer will be entitled to withhold the excess amount from any subsequent remittance. To the extent the remittances of estimated payments are less than the amount that should have been remitted, the servicer will remit the amount of the shortfall to the allocation account within two business days. Any discrepancy between estimated and actual collections is mitigated by the true-up mechanism, which allows the Authority to adjust the restructuring charges at any time as needed to make timely interest and principal payments on the bonds.

Payment Priority

On each semiannual payment date, or for items 1 through 4 below, on any business day, the trustee will pay or allocate, at the direction of the servicer, all amounts on deposit in the collection account in the following order of priority:

1. to the trustee, i) all fees, expenses and ii) any outstanding indemnity amounts not to exceed \$800,000 in each year;
2. to the servicer, the servicing fee and all prior unpaid servicing fees, capped at 0.60% of the aggregate principal balance of the bonds in each year;
3. to the administrator, the administration fee (\$100,000 per year) and all prior unpaid administration fees;
4. the payment of all other operating expenses to the persons entitled to such payment;
5. to the bondholders, first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable bond interest rate) and second, interest due on such payment date;
6. to the bondholders, principal due and payable on the bonds as a result of an event of default and an acceleration of the bonds or on the legal final maturity date of a tranche of bonds;

7. to the bondholders, principal for such payment date, sequentially according to the related expected amortization schedule;
8. to the trustee, indemnity amounts in excess of \$800,000 in each year;
9. to the servicer, the servicing fee and all prior unpaid servicing fees in excess of 0.60% of the aggregate initial principal balance of the bonds in each year;
10. to the debt service reserve subaccount, the amount, if any, by which the required reserve level (1.5% of the aggregate outstanding principal balance of the bonds) exceeds the amount in the debt service reserve subaccount as of such payment date;
11. to the operating reserve subaccount, the amount, if any, by which the required operating reserve level (0.5% of the aggregate initial principal balance of the bonds) exceeds the amount in the operating reserve subaccount as of such payment date;
12. any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the debt service reserve subaccount and applied to clauses 5 through 7 above on the next payment date; and
13. to the excess funds subaccount, the balance, if any, for distribution on subsequent payment dates

If funds in the general subaccount are insufficient to make the payments required under items 1 through 9, the trustee will first, draw from amounts in the excess funds subaccount and second, draw from amounts in the operating reserve subaccount, in each case, to make the payments required under items 1 through 9. In addition, if funds in the general subaccount, together with moneys available in the excess funds subaccount and the operating reserve subaccount, are insufficient to make the payments required under items 5 through 7, the trustee will draw from amounts in the debt service reserve subaccount, up to the amount of such shortfall. If funds in the general subaccount are insufficient to make the allocations under item 10, the trustee will draw from amounts in the excess funds subaccount to make such allocations.

LIPA will calculate the annual true-up adjustment to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next annual true-up adjustment. Should LIPA perform a mid-year true-up adjustment, LIPA will similarly calculate the mid-year true-up adjustment to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next mid-year true-up adjustment.

Events of Default

An event of default with respect to the bonds is defined in the indenture as any one of the following events:

1. failure to pay interest or redemption price on any bond when due (after a five day cure period);
2. failure to pay principal of any tranche of a bond on the legal final maturity date for such tranche;
3. failure of the issuer to perform a covenant (after a cure period);
4. breach by the issuer of its representations or warranties (after a cure period);
5. commencement of an involuntary bankruptcy or similar proceeding against the issuer which remains in effect for 90 days;
6. commencement of a voluntary bankruptcy or similar proceeding by the issuer; or
7. an action violating the financing order or state pledge.

Issuance of Additional Bonds

The issuer can issue up to \$4.5 billion in restructuring bonds over four distinct financing orders. To the extent the amount authorized is not issued under this fourth and final financing order, additional financings may be authorized by new financing orders to be adopted at a later date. Each series of restructuring bonds that may be issued will be backed by separate restructuring property the issuer acquires for the separate purpose of repaying that series. Any new series of such securities may include terms and provisions that would be unique to that particular series of restructuring bonds. However, the issuer may not issue additional restructuring bonds unless the rating agency condition for the bonds has been satisfied.

Asset Transfer, True Sale and Bankruptcy Remoteness

The securitization law provides that an electric utility's transfer of restructuring property is a true sale and is not a pledge of or a secured transaction relating to the electric utility's right, title and interest in the restructuring property (other than for federal and state income and franchise tax purposes) and that legal and equitable title passes to the transferee, if the agreement governing that transfer expressly states that the transfer is a sale or other absolute transfer.

The securitization law created the issuer, a bankruptcy-remote special purpose corporate municipal instrumentality, and a political subdivision and public benefit corporation of the State of New York. Under the securitization law, the issuer is not authorized to be a debtor under Chapter 9 or any other provision of the Bankruptcy Code.

The issuer was formed solely to purchase and own the restructuring property, to issue the bonds which are to be secured by the restructuring property, and to perform any activity incidental thereto. The issuer has no commercial operations.

The issuer will issue the bonds under an indenture with the trustee and will use the bond proceeds to purchase the restructuring property from the Authority and to pay the cost of issuing the bonds. The issuer will pledge the restructuring property to secure the bonds.

Sponsor and Seller

The Long Island Power Authority will be the securitization's sponsor and the seller of the restructuring property. The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York, and is authorized to be a Chapter 9 debtor pursuant to its enabling legislation.

The Authority took over as the retail supplier of electric service in the service area in 1998 by acquiring the Long Island Lighting Company (LILCO) as a wholly-owned subsidiary of the Authority through a merger. Since the merger, LILCO has done business under the name "LIPA." LIPA, acting through LILCO provides electric delivery service in the service area.

The Authority is governed by a Board of Trustees and is generally not regulated by the New York Public Service Commission (PSC) or the Federal Energy Regulatory Commission. The Authority is authorized under its enabling statute to set rates for electric service in the service area without obtaining the approval of the PSC or any other State regulatory body.

The Authority and LIPA are parties to a financing agreement providing for their respective duties and obligations relating to the financing and operation of the retail electric business. Under the agreement, LIPA conducts the electric business in the service area and is responsible for providing service to customers in the service area. The Authority and LIPA are also parties to an administrative services agreement pursuant to which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the service area.

Administrator

LIPA will provide or arrange for the provision of administrative services to the issuer pursuant to an administration agreement, including services relating to the preparation of financial statements, required filings with the SEC, any tax returns the issuer might be required to file, qualifications to do business, and minutes of the issuer's managers' meetings. LIPA, as administrator, will be entitled to receive an annual administration fee of \$100,000 payable annually, in arrears.

Securitization Structure Analysis

The key structural feature of this transaction is the true-up mechanism. Our rating is highly dependent on the extent to which the mechanism adjusts the charges to correct for past shortfalls or forecasted future shortfalls. The effectiveness of those rate changes in raising funds depends, in turn, on how easily customers can escape the charges and how sensitive electricity usage is to increases in the utility charges. Therefore, our analysis of the true-up mechanism goes together with our analysis of how bypassable the cost recovery charges are and how easily customers can cut back on electricity usage.

In this transaction, the strong true-up mechanism combined with nonbypassable charges mitigates the need for credit enhancement in the form of alternative sources of funds. The operating reserve and debt service accounts provide sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between the semi-annual true-ups.

Methodology and Monitoring

The principal methodology used in this rating was [Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges](#) published in June 2015. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moody.com.

In monitoring this transaction, we apply the key components of our methodology. More specifically, we analyze whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialize, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

We also follow the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of LIPA (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

Thus changes in our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

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REPORT NUMBER 1033393

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

16 June 2016

Pre-Sale

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Estimated Closing Date

June 2016

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Duke Energy Florida Project Finance, LLC Series A Bonds

First Duke Energy Florida-Sponsored Utility Cost Recovery Bond

Capital Structure

Exhibit 1

Provisional (P) Ratings

Series	Provisional Rating	Expected Amount	Coupon	Legal Final Maturity Date
Series A 2018	(P)Aaa (sf)	\$183,000,000	Fixed	3/1/2022
Series A 2021	(P)Aaa (sf)	\$150,000,000	Fixed	9/1/2024
Series A 2026	(P)Aaa (sf)	\$436,000,000	Fixed	9/1/2031
Series A 2032	(P)Aaa (sf)	\$250,000,000	Fixed	3/1/2035
Series A 2035	(P)Aaa (sf)	\$275,290,000	Fixed	9/1/2038
Total		\$1,294,290,000		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks are not addressed, but may have a significant effect on yield to investors.

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Summary Rating Rationale

We have assigned provisional ratings to the five classes of bonds (Series A bonds, or the bonds) that Duke Energy Florida Project Finance, LLC (the issuer) will issue. The issuer is wholly-owned by Duke Energy Florida, LLC (DEF; A3 Stable), a subsidiary of Duke Energy Corporation (Baa1 negative), one of the largest utility holding companies in the US. DEF formed the issuer to securitize a special charge on DEF customers' utility bills. The charge is imposed to recover certain costs associated with DEF's retirement of its Crystal River Unit 3 (CR3) nuclear power plant, including certain capitalized costs of the retired nuclear generating asset and ancillary costs and fees, as well as financing costs associated with this issuance. The Series A bonds will be the first utility cost recovery bonds sponsored by DEF.

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 15 June 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

As a regulated utility, DEF is typically entitled to recover specified costs of acquiring, constructing and improving energy generating assets which are generally capitalized and recovered over the useful life of that asset. The Florida Public Service Commission (FPSC) has authorized DEF to recover a specified portion of DEF's remaining unrecovered capitalized and newly incurred costs associated with the early retirement of the CR3 nuclear plant (nuclear asset-recovery costs). The nuclear asset-recovery costs, together with interest and other financing costs, are recovered by irrevocable, binding, nonbypassable charges (nuclear asset-recovery charges) imposed on all DEF transmission and distribution customers for the total value of the nuclear asset-recovery costs. The right to impose, bill, collect and receive the nuclear asset-recovery charges (nuclear asset-recovery property) is the primary collateral backing the Series A bonds.

Our provisional ratings reflect our assessment of the legal and structural aspects of the transaction including the State of Florida's legislation, financing order and state pledge, the mandatory uncapped true-up mechanism, the relatively low level of the recovery charge as compared to prior rated utility cost recovery transactions, the large and diversified ratepayer base, and the credit quality of the servicer.

Credit Strengths

Strength of Legislation and Financing Order: The State of Florida's legislation (Section 366.95, Florida Statutes, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on December 19, 2015 permits the securitization and strongly protects the nuclear asset-recovery property securing the bonds. Similar to other utility cost recovery securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of Florida pledges to bondholders that it will not (1) alter provisions of the securitization law which make the nuclear asset-recovery charges irrevocable, binding, and nonbypassable; (2) take or permit any action that impairs the value of the nuclear asset-recovery property, or (3) except as authorized by the true-up adjustment mechanism, reduce, alter or impair nuclear asset-recovery charges until the bonds have been repaid in full (the state pledge). In addition, the securitization law and financing order contain the typical strong true-sale and security interest provisions.

FPSC's irrevocable financing order authorizes DEF to recover specified costs of retiring the CR3 nuclear plant by collecting nuclear asset-recovery charges. This nuclear asset-recovery property grants the issuer the right to impose, bill and collect, nonbypassable nuclear asset-recovery charges based on electricity usage, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full. In this context, nonbypassable refers to the requirement that the charges be levied on all of DEF's existing and future retail electric customers receiving transmission and distribution services in DEF's service area, including customers of any DEF successor or assignee, and even if a customer elects to purchase electricity from an alternative electric supplier following a deregulation of public utilities in Florida.

True-Up Adjustment Mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts nuclear-asset recovery charges semiannually (and quarterly after the last scheduled maturity date of the bonds of any series) to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments, at any time if the servicer deems necessary to ensure timely bond payments.

Relatively Low Recovery Charge: DEF expects the securitization's initial nuclear asset-recovery charge to represent around 2.5% of the total monthly bill that a 1,000 kilowatt hour (kWh) residential customer in DEF's service area will receive as of April 2016; this percentage charge is relatively low compared to charges in other utility cost recovery transactions. For context, the three most recent utility cost recovery bond issuances we rated, Utility Debt Securitization Authority, sponsored by LIPA, Entergy New Orleans Storm Recovery Funding I, LLC, and the Louisiana Utilities Restoration Corporation Project/ ELL, had a cumulative (including prior utility cost recovery charges to the same customer base) initial recovery charge amounting to 6.9%, 2.5%, and 3.7% of a 1,000 kWh residential bill, respectively.

Strength of the Ratepayer Base: The size, economic stability and diversity of the ratepayer base in DEF's service area is a credit strength. The service area includes the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas. The service area primarily

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

includes a mix of residential customers (59% by revenue) and commercial customers (28% by revenue). Unlike most other utility cost recovery securitizations, the service area includes very few industrial customers (6% by revenue), which is a credit positive. Energy consumption by industrial customers is more volatile compared with other types of customers, because consumption by industrial operations is more closely tied to the business cycle.

Strength and Experience of the Servicer: We rate DEF A3 with a stable outlook. DEF does not have prior servicing experience with nuclear asset-recovery charges, but is highly experienced in calculating and implementing similar rates and charges under various cost recovery statutes and billing those amounts to customers. DEF has over one hundred years of experience in collecting similar charges from its customers.

Credit Challenges

Challenges to Securitization Law and Financing Order: Potential state and federal legislative and regulatory actions could weaken the legal protections of the nuclear asset-recovery property; however we view this risk as remote. Florida does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to repeal or amend the securitization law, or for FPSC to amend or revoke the financing order, would be through an amendment to the state constitution or a legislative action, either of which would violate the state pledge. The risk that the State of Florida would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered.

The people of the State of Florida have the right to amend the Florida Constitution through initiative powers. It is possible that the people of Florida, using their initiative powers, might amend or repeal the Florida Constitution in a manner affecting the securitization law. The process to propose a revision or amendment to the Florida Constitution by initiative is extremely burdensome. DEF is currently unaware of any efforts to amend the Florida Constitution in a manner which would affect the securitization law in any way.

On February 26, 2016, DEF was served with a class action lawsuit in which the plaintiffs allege that the nuclear cost recovery statute (Section 366.93, Florida Statutes) is unconstitutional on various grounds. The putative plaintiffs seek a refund of costs paid by DEF customers pursuant to the nuclear cost recovery statute. The securitization law is not the subject of this litigation.

We view the risk to bondholders from this litigation as remote. Several past challenges to securitization laws such as this have been unsuccessful, and even in the low likelihood event that this challenge is successful, the arguments put forward by the plaintiffs are generally not relevant to the securitization law.

Potential for Insufficient Collections: Collections arising from the nuclear asset-recovery property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration, self-generation and storm damage. DEF's estimates of market demand, energy prices and growth within its service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, in which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments occur semiannually and on an interim basis as needed.

Key Characteristics

Asset Characteristics (as of 15 June 2016)

Exhibit 2

Asset Characteristics

Assets:	Nuclear asset-recovery property, which consists of all rights and interest of the issuer under the financing order, including the right to impose, bill, collect and receive irrevocable, binding, nonbypassable charges based on the usage of electricity from all existing or future customers receiving transmission or distribution service from DEF or its successors or assignees
Service Area:	DEF's service area covers approximately 13,000 square miles, including the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas, and supplies electric service to approximately 1.7 million residential, commercial and industrial customers

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Securitization Structure Characteristics

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Series A Senior Secured Bonds
Amount:	\$1,294,290,000
Structure:	Standalone trust
Credit Enhancement:	Mandatory uncapped true-up mechanism, Capital Subaccount
Transaction Parties	
Sponsor/Depositor/Service:	Duke Energy Florida, LLC
Issuer:	Duke Energy Florida Project Finance, LLC
FPSC Financial Advisor:	Saber Partners, LLC
Trustee:	The Bank of New York Mellon Trust Company, National Association

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Assets Overview

In February 2013, DEF announced it would close and decommission the CR3 nuclear power plant. The FPSC has authorized DEF to recover a portion of its remaining unrecovered capitalized and newly incurred costs associated with the early retirement of the plant (nuclear asset-recovery costs). The nuclear asset-recovery costs, together with interest and other financing costs, are recovered by irrevocable, binding, nonbypassable charges (nuclear asset-recovery charges) imposed on all DEF transmission and distribution customers for the total value of the nuclear asset-recovery costs. The right to impose, bill, collect and receive the nuclear asset-recovery charges is the primary collateral (nuclear asset-recovery property) backing the Series A bonds.

The bonds are also secured by funds on deposit in the collection account, including the general subaccount, the capital subaccount and the excess funds subaccount, by the issuer's rights under the various transaction documents, by the issuer's right to compel the servicer to file for and obtain true-up adjustments, and by all payments on or under the pledged collateral and by all proceeds in respect to the pledged collateral.

Assets Description

The Securitization Law

In 2015, the Florida legislature enacted the securitization law, codified as Section 366.95, Florida Statutes. The securitization law allows electric utilities to access lower-cost funds through nuclear asset-recovery bonds pursuant to financing orders issued by the FPSC. One purpose of the securitization law is to lower the cost to customers associated with the long-term financing of costs incurred in connection with the early retirement or abandonment of a nuclear generating asset unit. The early retirement or abandonment must be deemed reasonable and prudent by the FPSC through a final order approving a settlement or other final order issued by the FPSC before July 1, 2017, and the pretax costs to be financed must exceed \$750 million.

The securitization law permits DEF to impose irrevocable, binding, nonbypassable nuclear asset-recovery charges on all future and existing customers receiving transmission or distribution service from DEF or its successors or assignees under FPSC-approved rate schedules or under special contracts sufficient to pay principal of and interest on the bonds and other administrative expenses of the offering. The FPSC governs the amount and terms for collections of these nuclear asset-recovery charges through one or more financing orders issued to DEF. Upon the issuance of the bonds these nuclear asset-recovery charges may not be reduced, impaired, postponed, terminated or otherwise adjusted by the FPSC except as adjusted pursuant to the true-up mechanism.

Florida and other states have passed legislation similar to the securitization law to authorize recoveries by utilities of specified costs, such as hurricane recovery costs, environmental control costs, or costs associated with deregulation of the electricity market, and some of those laws have been challenged by judicial actions or utility commission proceedings. To date, none of those challenges has succeeded.

The securitization law provides that a valid and enforceable security interest in nuclear asset-recovery property will attach only upon the later of: the issuance of a financing order, the execution and delivery of a security agreement with the indenture trustee in connection with issuance of a series of bonds, and the receipt of value for such bonds. Although not governed by the UCC, upon filing notice with the Florida UCC registry the lien and security interest will be continuously perfected. The security interest will have priority in the order of filing and take precedence over any subsequent judicial or other lien creditor. No continuation statements are necessary to maintain such perfection. The servicer pledges in the servicing agreement to file in the Florida UCC registry on or before the closing date and the seller will represent that no prior filing has been made.

The Financing Order

The FPSC issued an irrevocable financing order to DEF on November 19, 2015. That financing order became final and non-appealable on December 19, 2015. Pursuant to the financing order, DEF established the issuer to be a bankruptcy-remote special purpose subsidiary to issue the nuclear asset-recovery bonds. In the financing order, the FPSC authorized the imposition and collection of nuclear asset-recovery charges on all DEF transmission and distribution customers. DEF, as initial servicer, will collect nuclear asset-recovery charges on the issuer's behalf and will remit the nuclear asset-recovery charges to the indenture trustee.

The FPSC expects the financing order to result in a substantial cost savings to ratepayers of \$708 million or \$1.95 per month for 1,000 kWh, versus the traditional method of cost recovery under current and expected market conditions. The financing order has been praised publicly by regulators and consumer advocacy groups, further insulating the financing order from challenge.

The State Pledge

The securitization law includes a pledge from the State of Florida to the bondholders that it will not (1) alter the provisions of the securitization law which make the nuclear asset-recovery charges irrevocable, binding, and nonbypassable; (2) take or permit any action that impairs the value of nuclear asset-recovery property; or (3) except as authorized by the true-up adjustment mechanism, reduce, alter, or impair the nuclear asset-recovery charges until the bonds have been repaid in full.

Any action of the Florida legislature adversely affecting the nuclear asset-recovery charges or the ability to charge or collect the charges would likely require the State of Florida to pay just compensation under the "takings clause" of the US and Florida Constitutions. The seller agrees that it will institute any action or proceeding necessary to compel performance by the FPSC, the State of Florida or any of their respective agents of any of their obligations or duties under the securitization law or any financing order.

The Nuclear Asset-Recovery Charges

The nuclear asset-recovery charges are nonbypassable, consumption-based charges separate and apart from DEF's base rates; the nuclear asset-recovery charges are to be paid by all existing and future customers receiving transmission or distribution service from DEF or its successors or assignees under FPSC-approved rate schedules or under special contracts. Such customers must pay nuclear asset-recovery charges even if DEF goes out of business and its transmission and distribution services are taken over by another utility or if a customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida. No customer receiving transmission or distribution service from DEF can avoid the charge. The only way to avoid the charge is to disconnect from DEF's electric grid.

The nuclear asset-recovery charges are permitted to continue for 276 months from issuance, or until the bonds are paid in full. The expected scheduled final payment date for the Series A 2033 bonds is 240 months from issuance, providing up to an additional 36 months of nuclear asset-recovery charges if necessary to pay the bonds.

The Nuclear Asset-Recovery Costs

The nuclear asset-recovery charges authorized by the financing order allow DEF to recover nuclear asset-recovery costs related to retiring the CR3 nuclear plant located in Citrus County, Florida. CR3 was originally placed in service in 1977. In February 2013, DEF announced the early retirement of the project. DEF's unrecovered net investment in the project was approximately \$1.6 billion. In October 2013, the FPSC approved a settlement agreement whereby DEF agreed to write-off approximately \$300 million of its unrecovered net investment in CR3. The settlement agreement allowed DEF to recover its remaining unrecovered net investment in the project of approximately \$1.3 billion over a 240 month period beginning no later than the first billing period of January 2017.

The nuclear asset-recovery costs financed by the bonds are equal to (i) the balance of the CR3 regulatory asset as of December 31, 2015 as allowed under the financing order minus (ii) \$35,894,547, which, pursuant to the FPSC's Final Order PSC-16-0138-FOF-EI issued on April 5, 2016, shall not be included as part of the CR3 regulatory asset, plus (iii) carrying charges accruing at 6.0% per annum on the balance of the CR3 regulatory asset (adjusted as described in (ii) above) from December 31, 2015 through June 21, 2016.

Excluded from the amount being financed is \$35,894,547 of costs claimed pursuant to Section 366.93, Florida Statutes. On February 26, 2016, DEF was served with a class action lawsuit in which the plaintiffs allege that the nuclear cost recovery statute (366.93) is unconstitutional on various grounds. The putative plaintiffs seek a refund of costs paid by DEF customers pursuant to the nuclear cost recovery statute. The securitization law is not the subject of this litigation.

The suit claims DEF unlawfully charged customer higher rates to cover more than \$1.2 billion in expenses at its Crystal River nuclear power plant and at its proposed (and now shelved) Levy County nuclear plant site. In addition to the suit seeking relief for nuclear recovery costs, it also seeks to nullify as unconstitutional the nuclear cost recovery system and all nuclear cost recovery orders issued by the FPSC, and it seeks an order enjoining defendants from further unlawful charges. The likelihood of the lawsuit prevailing is low considering other lawsuits challenging the constitutionality of Florida's nuclear cost recovery statute have been found to be without merit and rejected by Florida courts.

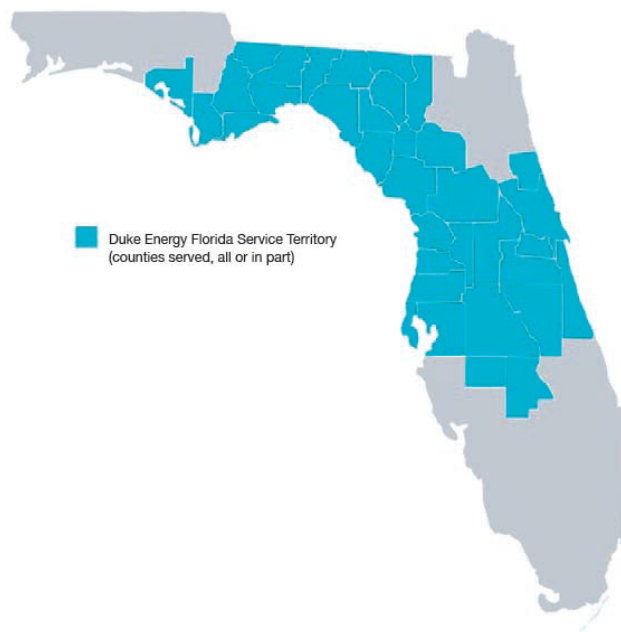
The Service Area

DEF's service area covers approximately 13,000 square miles, including the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas, and supplies electric service to approximately 1.7 million residential, commercial and industrial customers. During the twelve

months ended December 31, 2015, DEF billed approximately 38.6 billion kilowatt hours of electricity to its covered electric customers in Florida, resulting in revenues of approximately \$4.4 billion. Exhibit 4 below shows a map of DEF's service area.

Exhibit 4

Duke Energy Florida Service Area



Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Statutory Uncapped True-Up Adjustment Mechanism

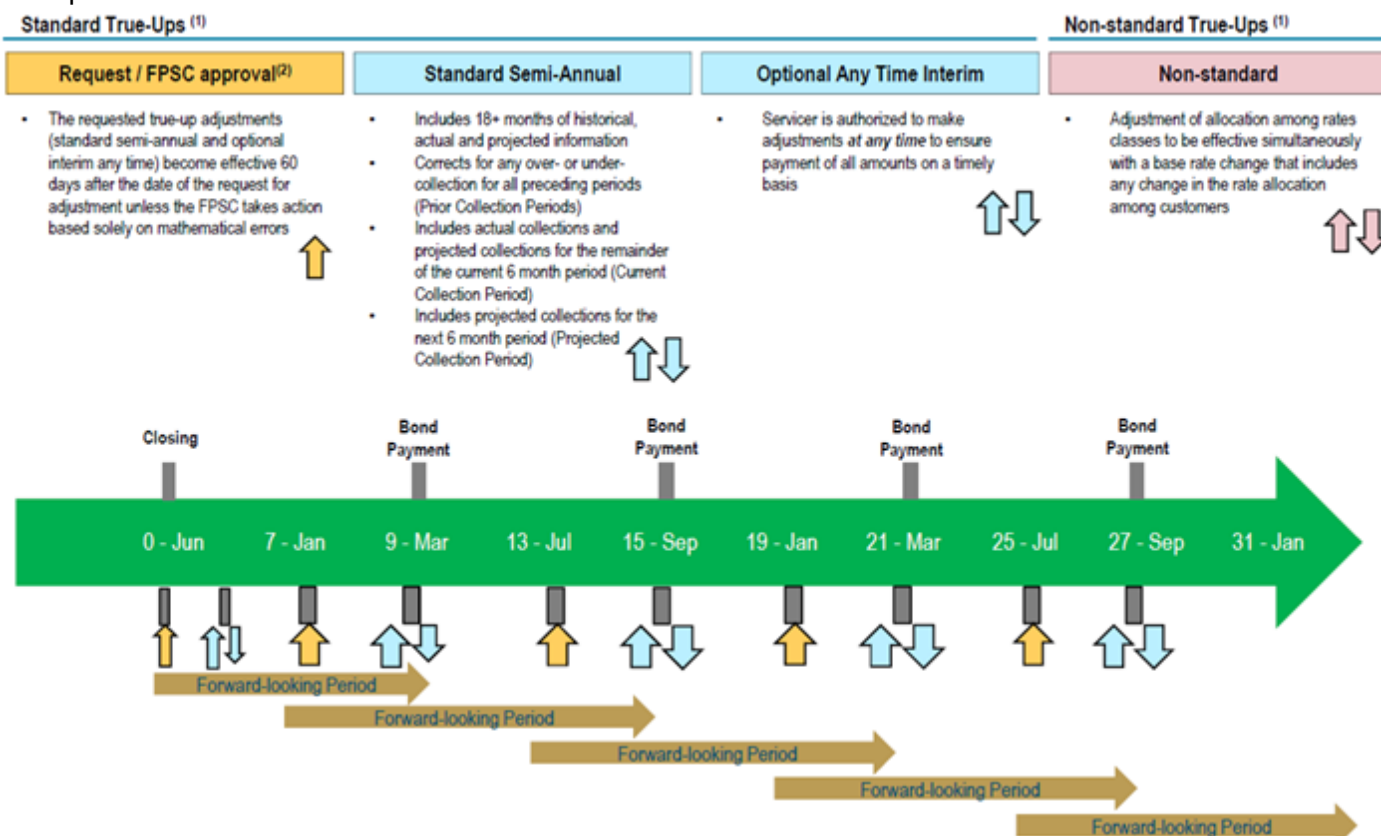
The securitization law and the financing order require that the issuer or DEF file with the FPSC at least semi-annually (and quarterly after the scheduled final payment date for the latest maturing bond) a letter applying the true-up mechanism to correct for any overcollection or undercollection of the nuclear asset-recovery charges and make any adjustments to ensure the recovery of revenues sufficient to provide for the timely payment of scheduled principal and interest on the bonds and other required amounts and charges. The FPSC's review of any adjustment request is limited solely to determining whether there is any mathematical error in the application of the formula-based mechanism.

Under the servicing agreement, the servicer will make adjustments to the nuclear asset-recovery charges at least semi-annually. In addition to the semi-annual true-up adjustment, the servicer is authorized to make interim adjustments at any time for any reason to ensure the timely payment on the bonds. In addition, the servicer will make a non-standard true-up adjustment to be effective simultaneously with a base rate change that includes any change in the rate allocation among customers used to determine the nuclear asset-recovery charges. Exhibit 5 below illustrates the true-up mechanism.

Under the irrevocable financing order, the FPSC guarantees it will act, as directed by the securitization law, to implement the true-up mechanism for making any adjustments that are necessary to correct for any overcollection or undercollection of the nuclear asset-recovery charges or to otherwise ensure the timely payment of principal of and interest on the bonds when due.

Exhibit 5

True-Up Mechanism



Source: DEF

Servicing

DEF will be the initial servicer of the bonds. DEF, as servicer, will be responsible for, among other things, calculating, billing, collecting and posting the nuclear asset-recovery charges from customers, submitting requests to the FPSC to adjust these charges, monitoring the collateral for the bonds and taking certain actions in the event of non-payment by a customer. The indenture trustee's receipt of collections in respect of the nuclear asset-recovery charges, which will be used to make payments on bonds, will depend in part on the skill and diligence of the servicer in performing these functions.

DEF does not have prior servicing experience with nuclear asset-recovery charges, but is highly experienced in calculating and implementing similar rates and charges under various cost recovery statutes and billing those amounts to customers. DEF has over one hundred years of experience in collecting similar charges from its customers.

DEF will be entitled to receive an annual servicing fee in an amount equal to 0.05% of the aggregate initial principal amount of the bonds. This servicing fee will be payable in equal installments on each semi-annual payment date, in arrears. If DEF or any of its affiliates is not the servicer, the successor servicing fee may be up to 0.60% of the initial principal amount of the bonds unless a higher fee is approved by the FPSC.

In the event of a servicer default, the indenture trustee, at the direction of a majority of bondholders or at the direction of the FPSC, may terminate the rights and obligations of the servicer under the servicing agreement. However, replacement of the servicer would require the agreement of the indenture trustee and the administrative agents under DEF's accounts receivable sale programs.

Credit, Billing and Budget Billing

DEF is required to provide transmission and distribution service to all qualified customers. First time customers establishing residential electric accounts are generally required to pay a deposit as are customers that do not satisfy threshold credit score requirements.

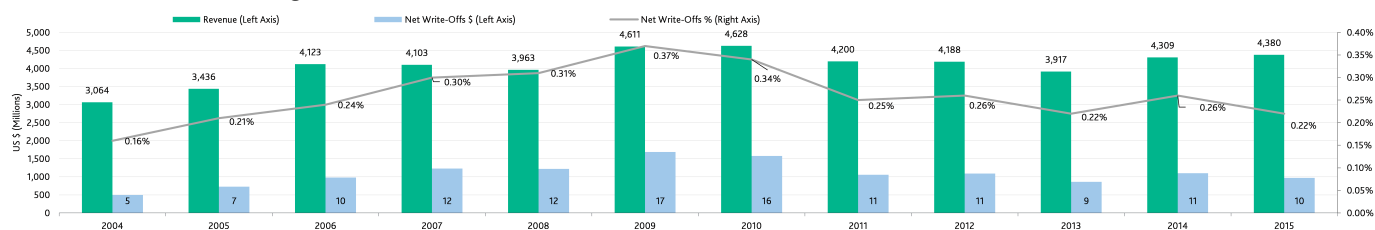
The amount of the deposit reflects the estimated use over a two-month period, which is the maximum DEF may collect by law. As a general rule, non-residential accounts require deposit coverage. Consumer credit is not used to determine credit worthiness on non-residential accounts.

DEF bills its customers once every 24 to 39 days and distributes approximately 85,000 bills on each business day to its customers. Approximately 6% of DEF's residential customers choose to be billed using DEF's budget billing program. For these customers, DEF determines and bills a monthly budget based on the last twelve months of billing history for each account. Budget billing does not affect the amount of nuclear asset-recovery charges that the servicer remits to the indenture trustee on a daily basis.

Bills are due 21 calendar days after the issue date at which time they are considered delinquent. For the year ended December 31, 2015, approximately 6% of total billed retail revenue became eligible for disconnect and 1% was disconnected. Approximately 87% of accounts disconnected for nonpayment ultimately make full payment and have service restored. Unpaid final bills are written off approximately 30 days after the final bill is issued.

Exhibit 6 below shows net write-offs since 2004, which have ranged from a low of 16bps of billed revenue in 2004 to a crisis period peak of 37bps in 2009. DEF's forecast is 26 bps, consistent with the post-crisis performance history.

Exhibit 6

Net Write-Offs as a Percentage of Billed Retail Revenues

Source: DEF

While more than 7.5% of customers are typically 30-59 days past due, by the third month most delinquencies are cured, with those still outstanding past 90 days well under 1% throughout the observation period. Exhibit 7 shows DEF customer delinquency data since 2005.

Exhibit 7

Delinquencies as a Percentage of Total Billed Revenues

	As of 2005	As of 2006	As of 2007	As of 2008	As of 2009	As of 2010	As of 2011	As of 2012	As of 2013	As of 2014	As of 2015
30-59 days	8.27%	8.51%	9.66%	8.41%	9.38%	7.82%	7.79%	7.59%	7.48%	7.79%	7.73%
60-89 days	0.92%	0.87%	1.12%	1.07%	0.78%	0.59%	0.57%	0.54%	0.59%	0.64%	0.57%
90+ days	0.52%	0.56%	0.90%	0.66%	0.51%	0.33%	0.22%	0.21%	0.28%	0.33%	0.33%
Total	9.71%	9.94%	11.68%	10.14%	10.67%	8.75%	8.58%	8.34%	8.35%	8.76%	8.63%

Source: DEF

Assets Analysis

Strong Service Area

This transaction benefits from the size and diversity of the ratepayer base within DEF's service area and the projected population growth and economic stability of the ratepayer base. During 2015, approximately 9% of DEF's total retail billed electric consumption was by industrial customers, approximately 31% was by commercial customers and approximately 52% was by residential customers, with other entities comprising approximately 8%. Exhibit 8 shows the percentage of total billed revenue attributable to each customer class since 2004.

Exhibit 8

Sales by Revenue Class (% of Total Billed Revenue)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	57.91%	57.70%	56.85%	57.21%	56.94%	57.34%	59.72%	58.18%	56.96%	58.49%	58.85%	59.43%
Commercial	27.66%	27.57%	27.89%	28.06%	28.39%	28.46%	27.01%	28.10%	28.85%	28.11%	27.81%	27.51%
Industrial	7.65%	7.73%	7.98%	7.34%	7.31%	6.70%	6.14%	6.40%	6.53%	6.12%	6.10%	5.91%
Streetlighting	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.04%	0.04%	0.05%	0.04%	0.04%	0.04%
Public Authority	6.73%	6.95%	7.22%	7.34%	7.31%	7.44%	7.09%	7.28%	7.61%	7.24%	7.20%	7.11%

Source: DEF

For the year ended December 31, 2015, the ten largest retail electric customers represented approximately 8.3% of DEF's retail kilowatt-hour sales. There are no material concentrations in the residential class. As of the closing date, no customer or group of related commercial or industrial customers will be obligated to pay more than 10% of the nuclear asset-recovery charges.

Exhibit 9

Top 10 DEF Customers

	Industry	Energy Usage (MWh)	% of Total Energy Usage	Revenues (\$000)	% of Total Revenues
1	Mining/Chemical Processing	691,591	1.79%	\$46,289	1.06%
2	Education	456,852	1.18%	\$37,972	0.87%
3	Retail Grocery	393,738	1.02%	\$35,619	0.81%
4	Mining/Chemical Processing	340,470	0.88%	\$23,343	0.53%
5	Education	252,072	0.65%	\$27,720	0.63%
6	Retail Trade	250,016	0.65%	\$24,409	0.56%
7	Stone/Clay/Glass	236,193	0.61%	\$15,771	0.36%
8	Education	201,586	0.52%	\$23,188	0.53%
9	Retail Grocery	199,997	0.52%	\$19,744	0.45%
10	Government	175,246	0.45%	\$16,124	0.37%
	Total	3,197,761	8.29%	\$270,179	6.17%

Source: DEF

Remote Risk of Severe Ratepayer Base Declines

The ratepayer base is sensitive to many macroeconomic factors, including service area population and household formation growth, expected disconnects due to use of self-generation, changes in the service area and potential municipalizations. We view the risks to the transaction of ratepayer base declines due to any of these factors to be low.

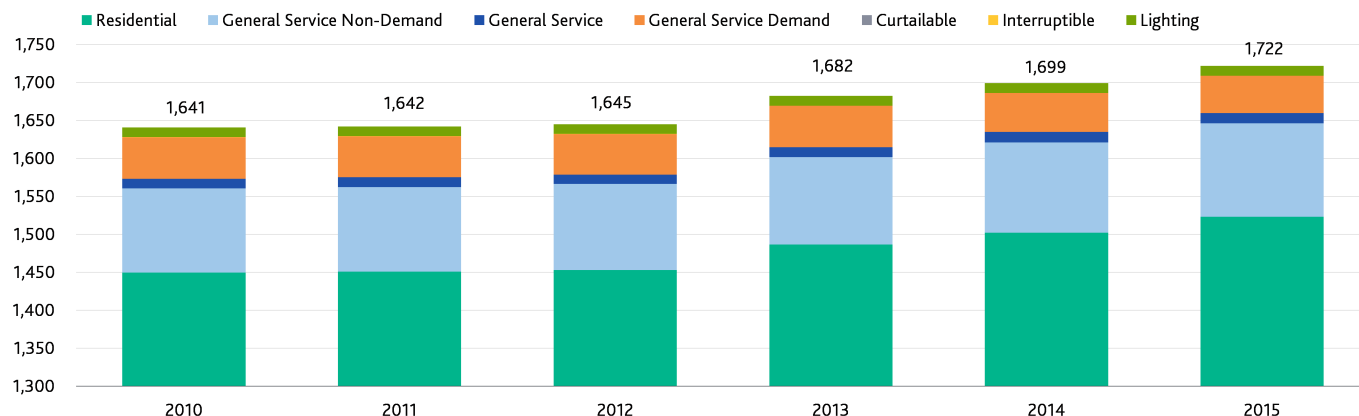
Population Growth

Florida's robust population trend is a benefit to the transaction. According to the Census Bureau, the state's population grew an average of 1,000 residents per day in 2015. This 1.8% increase was the largest since 2006 and the strongest in the South. Despite the rapid rise, population growth will likely accelerate further because the pace remains historically weak. In the 50 years before the Great Recession, annual population growth in the state exceeded last year's pace by 47 times. Florida should also expect faster expansion because its cities appeal to Hispanics—the nation's fastest growing ethnic group—and retiring baby boomers—the fastest-growing age

group in the U.S. In 2015, for the third consecutive year, The Villages, Central Florida's retiree haven, was the nation's fastest growing metro area in population. Exhibit 10 shows that growth in the average number of DEF retail electric customers since 2010.

Exhibit 10

Average Number of Retail Electric Customers



Source: DEF

Self-Generation

We look at the potential for increased use of self-generation as a minor headwind to the transaction. Self-generation, which primarily includes solar, reduces the ratepayer base and increases the burden of nuclear asset-recovery charges on other non-self-generating ratepayers. Based on existing legislation precluding the use of third-party owned solar equipment, DEF expects the estimated cost of self-generation for customers, combined with the practical obstacles to installing on-site generation, to limit self-generation from being installed by any meaningful number of customers within the service area. DEF forecasts self-generation to grow slowly over the next three years, and incorporates self-generation into its electricity consumption forecasts. The securitization law and financing order do not provide for exit fees to be charged to any customers that might leave the grid to self-generate.

Change in Service Area

We look at the risk of a ratepayer base decline due to a change in the service area to be minimal. The nuclear asset-recovery charge will be recoverable from all DEF customers taking transmission or distribution service from DEF. Thus, if the service area expands in the future, the new DEF customers would be subject to the nuclear asset-recovery charge on a going-forward basis. Pursuant to the financing order, any successor to DEF is required to perform all obligations and have the same rights under the financing order as DEF, including the collection of the nuclear asset-recovery charges from customers and payment of appropriate amounts to the issuer.

Municipalization

We view the risk to the ratepayer base due to municipalization as low due to the nonbypassability of the charges and the likelihood that even after a municipalization, DEF's transmission and distribution services will continue to be used. While multiple municipal utilities exist in Florida, DEF is unaware of any municipality that has municipalized, or attempted to municipalize, a portion of an investor-owned utility's service territory in the absence of an agreement. One municipality, the City of Winter Park, was municipalized pursuant to such an agreement. DEF previously had a franchise agreement that provided Winter Park with a unilateral purchase option at the expiration of the franchise agreement. In the instance of the Winter Park municipalization, DEF sought affirmative permission from the FPSC to be relieved of its obligation to serve the City of Winter Park, which the FPSC subsequently approved. Any municipality using DEF's transmission and distribution system following a municipalization will be considered a successor and its customers will be subject to the nuclear asset-recovery charge.

Storm Damage

We view the risk of reduced collections due to weather to be low, and substantially mitigated via the true-up mechanism. Hurricanes, tropical storms or wind storms may impact DEF's operations, temporarily interrupting transmission, distribution and consumption of

electricity, hence reducing the collections of nuclear asset-recovery charges. There might be longer-lasting weather-related adverse effects on residential and commercial development and economic activity in the DEF service area, which could cause the per-kWh nuclear asset-recovery charge to be greater than expected.

The only year with any significant loss of energy consumption due to natural disasters was 2004, when a series of three Hurricanes struck the DEF service area. The impacts came from "Charley" (Aug 13-20), "Frances" (Sep 4-10) and "Jeanne" (Sep 25-30). Estimated lost energy sales came from studying reduced levels of daily system requirements totaling 400,000 MWh over these three disasters. This represents about 1% of the total annual electric usage for 2004 (38,193 GWh).

Forecasting Electricity Consumption

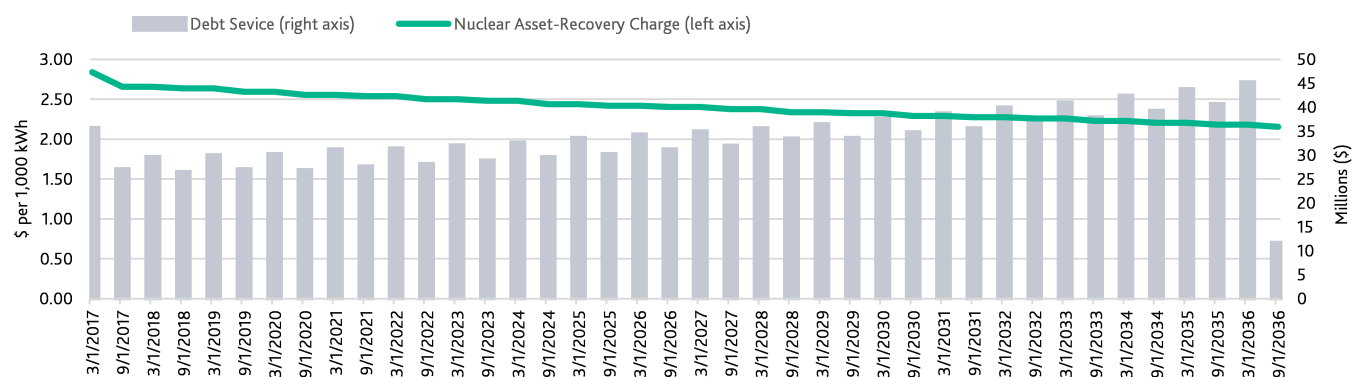
The nuclear asset-recovery charges are assessed based on forecasted customer usage. The amount and the rate of nuclear asset-recovery charge collections will depend in part on actual electricity consumption and the amount of collections and write-offs. If the servicer inaccurately forecasts electricity consumption or underestimates customer delinquency or write-offs when setting or adjusting the nuclear asset-recovery charges, there could be a shortfall or material delay in nuclear asset-recovery charge collections prior to the next true-up.

The forecast utilized in the proposed bond structure is the 2016 Ten Year Site Plan filed with the FPSC in April 2016. Internal forecasts are updated at least twice per year but are not filed with the FPSC. The DEF forecast of customers, energy sales, and peak demand applies both an econometric and end-use methodology. External sources of data include economic series from Moody's Analytics and State population data from the University of Florida's Bureau of Economic & Business Research. Internal company forecasts are used for projections of electricity price, and weather conditions. The forecast incorporates population and household trends, employment and production trends, technology and energy efficiency trends, and weather and climate trends. DEF has a more granular forecast for the phosphate industry, at the customer level, due to the high concentration of customers in this industry among DEF's industrial customer base.

Exhibit 11 shows the forecasted nuclear asset-recovery charge per 1,000 kWh and scheduled debt service payments.

Exhibit 11

Nuclear Asset-Recovery Charge and Debt Service (\$ per 1,000 kWh)*



*Preliminary and subject to change based on market conditions
Source: DEF; Moody's calculations

Forecast Variance

For there to be insufficient funds to pay ultimate principal and timely interest on the bonds, there would need to be unexpected, persistent and extensive drops in electricity consumption. Without an interim true-up adjustment, greater than 60% forecast variance would be needed leading up to any payment date to cause a payment default. Greater than 65% forecast variance would be needed in the first payment period to cause a payment default, assuming the servicer makes an interim true-up adjustment midway into the first payment period. By contrast the maximum forecast variance since 2011 has been less than 6%, as shown in Exhibit 12.

Exhibit 12

Annual Forecast Variance for Ultimate Electric Delivery (% of Forecast)

	2011	2012	2013	2014	2015
Residential	0.27%	-0.23%	-0.08%	2.14%	1.92%
Commercial	2.00%	0.82%	0.80%	1.40%	0.44%
Industrial	-3.09%	1.56%	-1.88%	3.87%	-3.25%
Public Authority	-2.40%	5.92%	0.50%	1.00%	-0.65%

Source: DEF

Cash Flow Analysis

We examined the cash flows that the nuclear asset-recovery charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the nuclear asset-recovery charges can go as a percentage of a 1,000 kWh residential customer's bill and also to illustrate how the nuclear asset-recovery charges behave under various stress scenarios of customer demand. Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm the level of the nuclear asset-recovery charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the nuclear asset-recovery charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. Such challenge is more likely the higher the charges, i.e., the more the economic incentive for a challenge, or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the nuclear asset-recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Even in our more extreme scenarios, the percentage of a residential customer's monthly bill devoted to the nuclear asset-recovery charge is less than 7%.

We looked at three scenarios:

Scenario Description and Projected Output**Base Scenario**

1. Electricity consumption as per the projections by DEF, which increases annually by a compounded 1 - 1.5%, through bond maturity
2. Implied net charge-offs of 0.2615%
3. Collection Curve projects 13.3% of collections within 30 days and 86.4% of collections between 30-60 days
4. Servicing fee is 0.05% on an annualized basis of the original principal amount of bonds so long as the servicer remains DEF or an affiliate. While a back-up servicer has not been retained, the issuer can increase servicing fees to 0.60% to attract one if needed.

Stress Scenario 1

1. Electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers
2. Annual net charge-offs are the same as in base case
3. Collection curve is the same as in base case
4. Loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year
5. Replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case

Stress Scenario 2

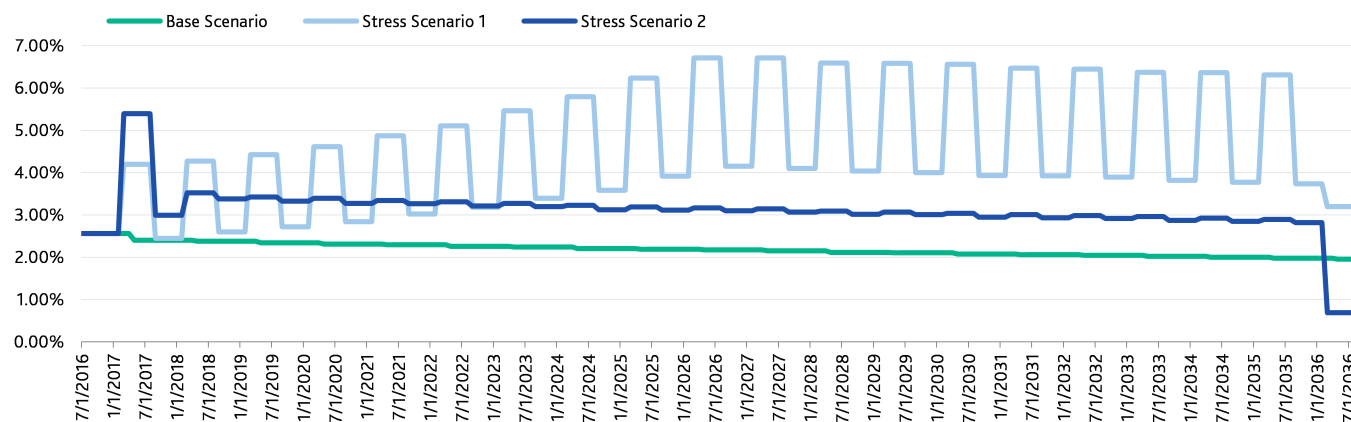
1. Electricity consumption is reduced by 25% permanently against the first year base case projection

2. Annual net charge-offs the same as in base case
3. Collection curve is the same as in base case
4. Servicing fee and all other fees the same as in base case

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 13 shows the projected nuclear asset-recovery charge as a percentage of a 1,000 kWh residential customer's total bill, and Exhibit 14 shows the projected nuclear asset-recovery charges for customers per 1,000 kWh over the securitization's life. The periodic variance in the charges under the stress scenarios is due to the semiannual true-ups capturing seasonality in electricity usage.

Exhibit 13

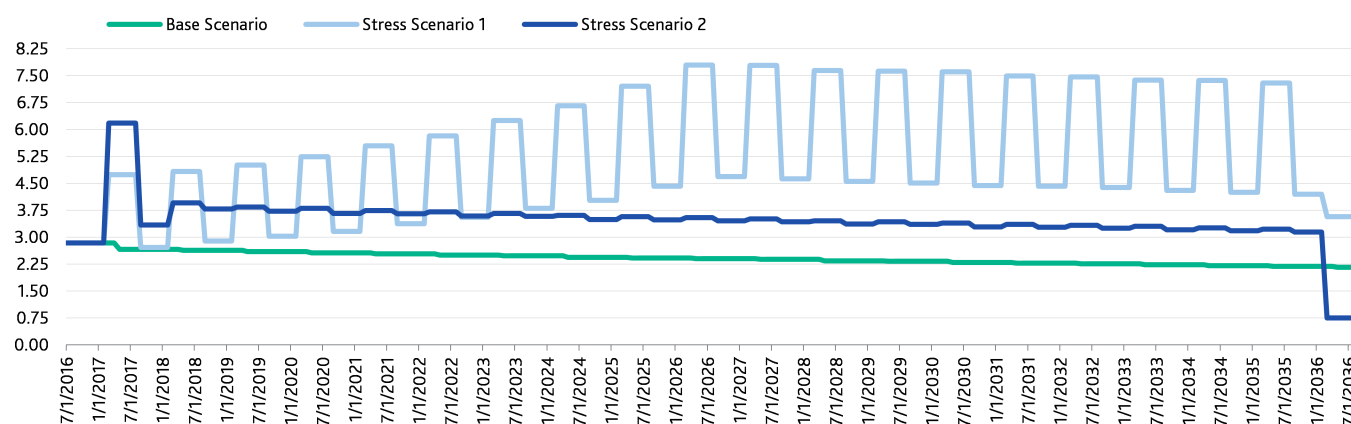
Nuclear Asset-Recovery Charge as a Percentage of a 1,000 kWh Customer's Total Bill



Source: DEF; Moody's calculations

Exhibit 14

Nuclear Asset-Recovery Charge (\$ per 1,000 kWh)



Source: DEF; Moody's calculations

Comparables

As shown in Exhibit 15, stress scenario 1 is more stressful and results in a peak nuclear asset-recovery charge equal to about 6.94% of a 1,000 kWh per month customer's bill. This is low compared to other utility cost recovery deals.

Exhibit 15

Maximum Recovery Charge Comparison (% of a 1,000 kWh Customer's Bill)

Deal name	Base	Stress1	Stress2
DEF 2016-1	2.65%	6.94%	4.73%
UDSA 2016A	7.21%	16.04%	10.40%
UDSA 2015	7.00%	12.32%	7.89%

Source: Moody's

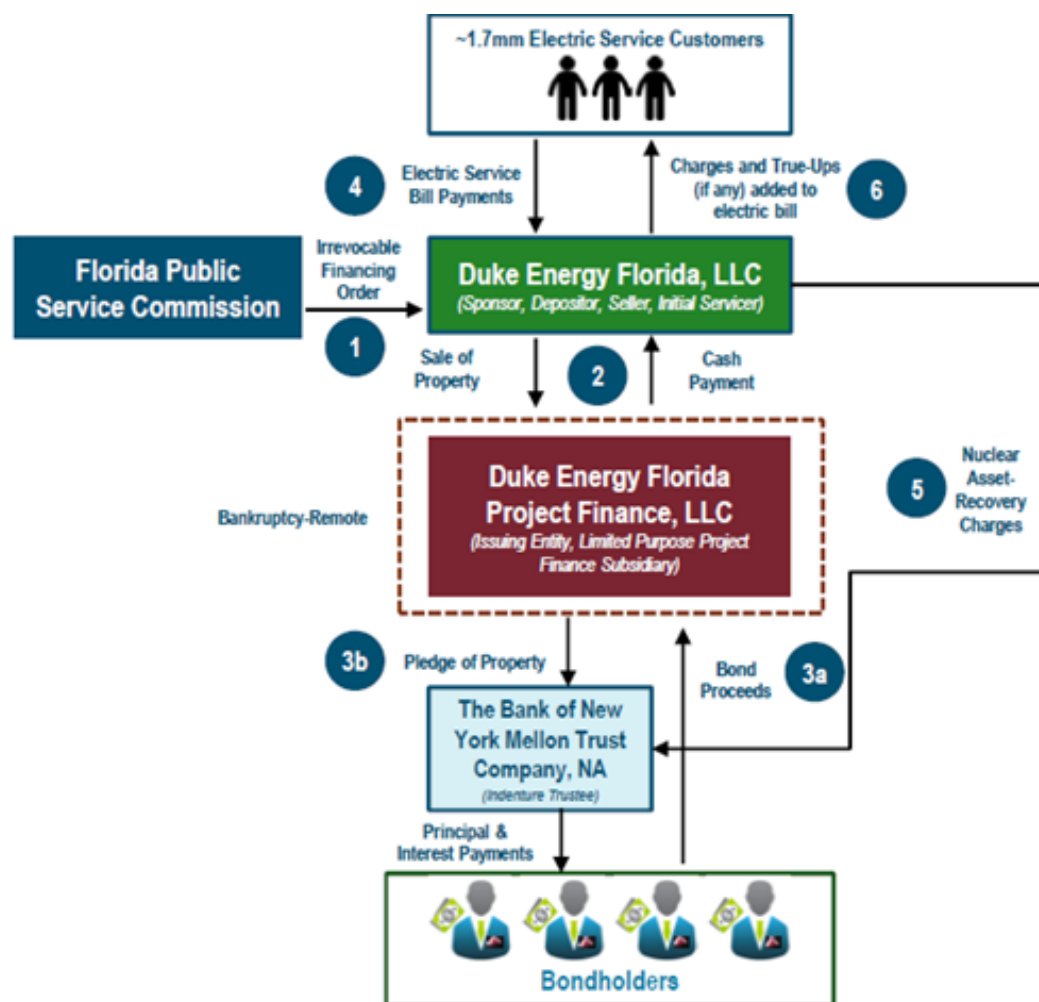
Securitization Structure Overview

On the closing date, DEF will sell the nuclear asset-recovery property to the issuer pursuant to a sale agreement between the issuer and DEF. DEF will service the nuclear asset-recovery property pursuant to a servicing agreement between the issuer and DEF.

Securitization Structure Description**Structural Diagram**

Exhibit 16 below illustrates the relationships between the transaction parties and bondholders.

Exhibit 16

Structural Diagram

Source: DEF

1. FPSC issues financing order, permitted under state statute, that creates nuclear asset-recovery property in the hands of DEF
2. Via a true sale, DEF transfers the nuclear asset-recovery property to the issuer in exchange for cash payment
3. (a) Nuclear asset-recovery bonds issued in exchange for cash payment from bondholders (b) Nuclear asset-recovery property is pledged to indenture trustee for benefit of the bondholders
4. Electric utility customers pay charge on electricity bills on joint and several basis
5. Payments from electric utility customers used to pay principal and interest on the bonds
6. At least semi-annually, and, as frequently as monthly (any time), charge on all electricity customers adjusted to whatever level necessary (i.e., not subject to cap) to ensure timely principal and interest payments on the bonds

Detailed Description of the Structure

Credit Enhancement

Credit enhancement for the bonds will be provided by the true-up mechanism, as well as by the capital subaccount. The primary purpose of the excess funds subaccount is not to provide credit enhancement for the bonds but to hold funds collected in amounts that were more than necessary to pay current debt service. However, amounts in the excess funds subaccount may be used to make debt service payments on the bonds when needed.

Capital Subaccount

On or before the date of issuance of the bonds, DEF will make a capital contribution to the issuer in an amount not less than 0.5% of the initial principal amount of the bonds, which will be deposited in the capital subaccount. Under the financing order, DEF will be entitled to a return on this capital contribution equal to the rate of interest on the latest maturing bond and payable according to the priority of payment set forth in the indenture and the series supplement.

Cash Commingling

The servicer is entitled to commingle the nuclear asset-recovery charges that it receives with its own funds until the funds are remitted to the indenture trustee on a daily basis. The securitization law provides that the priority of a lien and security interest is not impaired by the commingling of funds arising from nuclear asset-recovery charges with other funds.

The servicer will remit nuclear asset-recovery charges based on estimated collections using a weighted average balance of days outstanding on DEF's retail bills. Nuclear asset-recovery charge collections remitted will represent the charges estimated to be received for any period based upon the average days outstanding and an estimated system-wide write-off percentage.

No less often than annually, the servicer and the indenture trustee will reconcile remittances of estimated nuclear asset-recovery charge collections with actual payments received. To the extent the remittances of estimated payments exceed the amounts that should have been remitted, the servicer will be entitled to withhold the excess amount from any subsequent remittance. To the extent the remittances of estimated payments are less than the amount that should have been remitted, the servicer will remit the amount of the shortfall to the indenture trustee within two business days.

Payment Priority

On each payment date, the indenture trustee will pay all amounts on deposit in the general subaccount of the collection account in the following order of priority:

1. payment of the indenture trustee's fees, expenses and outstanding indemnity amounts in an amount not to exceed annually \$500,000 in the then current calendar year;
2. payment of the servicing fee plus any unpaid servicing fees from prior payment dates;
3. payment of the administration fee to the extent due on that payment date and of the fees of our independent manager plus any unpaid administration or management fees from prior payment dates;

4. payment of all of our other ordinary periodic operating expenses;
5. payment of the interest then due, including any past-due interest;
6. payment of the principal required to be paid on the final maturity date for each series or as a result of acceleration upon an event of default;
7. payment of the principal then scheduled to be paid in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal, paid pro rata among the bonds if there is a deficiency;
8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents;
9. replenishment of any amounts drawn from the capital subaccount;
10. release to DEF of an amount equal to the rate of return on the amount contributed to the capital subaccount, including any portion of such rate of return for any prior payment date that has not yet been paid, so long as no event of default has occurred and is continuing; and
11. allocation of the remainder collected, if any, to the excess funds subaccount for future payments.

Events of Default

An event of default with respect to the bonds is defined in the indenture as any one of the following events:

1. a default for five business days in the payment when due of any interest on any bond;
2. a default in the payment of the then unpaid principal with respect to any series on the final maturity date for that series;
3. a default in the observance or performance of any covenants or agreements made by the issuer in the indenture or the series supplement (other than defaults described above) which continues for 30 days;
4. any representation or warranty made by the issuer having been incorrect in any material respect as of the time made, and such breach not having been cured within 30 days;
5. certain events of bankruptcy, insolvency, receivership or liquidation with respect to the issuer; or
6. a breach by the State of Florida or any of its agencies (including the FPSC), officers or employees that violates the pledge of the State of Florida.

Issuance of Additional Bonds

As authorized by the financing order, the issuer's organizational documents and the transaction documents give the issuer authority and flexibility to issue additional nuclear asset-recovery bonds in future transactions, with the approval of the FPSC. Each series of nuclear asset-recovery bonds that may be issued will be backed by separate nuclear asset-recovery property the issuer acquires for the separate purpose of repaying that series. Any new series of such securities may include terms and provisions that would be unique to that particular series of nuclear asset-recovery bonds. However, the issuer may not issue additional nuclear asset-recovery bonds unless the rating agency condition for the bonds has been satisfied.

Asset Transfer, True Sale and Bankruptcy Remoteness

The securitization law provides that an electric utility's transfer of nuclear asset-recovery property is a true sale and is not a pledge or of a secured transaction relating to the electric utility's right, title and interest in the nuclear asset-recovery property (other than for federal and state income and franchise tax purposes) and that legal and equitable title passes to the transferee, if the agreement governing that transfer expressly states that the transfer is a sale or other absolute transfer.

The issuer's limited liability company agreement requires that it have at least one independent manager, whose selection and replacement will be subject to ratification by the FPSC. The limited liability company agreement does not permit the issuer to engage in any activities not directly related to purchasing and owning the nuclear asset-recovery property and issuing one or more series of nuclear asset-recovery bonds. The list of permitted activities set forth in the limited liability company agreement may not be altered,

amended or repealed without the affirmative vote of a majority of the managers, which vote must include the affirmative vote of the independent manager.

Sponsor and Seller

DEF is the sponsor of the transaction and the seller of the nuclear asset-recovery property. DEF, a Florida limited liability company, is a regulated public utility primarily engaged in the generation, transmission, distribution, and sale of electricity in portions of Florida. DEF is an indirect, wholly-owned subsidiary of Duke Energy Corporation, one of the largest regulated utility holding company in the US.

DEF is subject to the jurisdiction of the Florida Commission with respect to retail utility rates, accounting, utility services, certain facilities, certain asset transfers, certain corporate mergers and other matters. DEF is subject to the jurisdiction of the Federal Energy Regulatory Commission under the Federal Power Act with respect to acquisitions, operations and disposals of certain assets and facilities, services provided and rates charged, conduct among affiliates and other matters, and its nuclear power plant is also subject to the jurisdiction of the Nuclear Regulatory Commission.

Administrator

DEF will provide or arrange for the provision of administrative services to the issuer pursuant to an administration agreement, including services relating to the preparation of financial statements, required filings with the SEC, any tax returns the issuer might be required to file, qualifications to do business, and minutes of the issuer's managers' meetings. DEF, as administrator, will be entitled to receive an annual administration fee of \$50,000 payable annually, in arrears. The administrator may not resign or be removed without satisfaction of the rating agency condition.

Securitization Structure Analysis

The Series A bonds are a relatively simple sequential structure without subordination and the capital subaccount provides sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between the semi-annual true-ups.

Methodology and Monitoring

The principal methodology used in this rating was [Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges](#) published in June 2015. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moody.com.

In monitoring this transaction, we apply the key components of our methodology. More specifically, we analyze, whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialize, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

We also follow the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of DEF (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

Thus changes in our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating

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REPORT NUMBER 1031259

RatingsDirect®

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

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OVERVIEW

- We affirmed our ratings on 68 classes from 31 stranded cost securitizations.
- All of the transactions are backed by stranded assets created by statute with credit enhancement provided by true-up mechanisms and reserve accounts supporting our 'AAA (sf)' ratings in accordance with our criteria for stranded cost securitizations.

NEW YORK (Standard & Poor's) Feb. 25, 2013--Standard & Poor's Ratings Services today affirmed its ratings on 68 classes from 31 stranded cost securitizations (see list).

The affirmations reflect the transactions' ongoing stable performance and their continued ability to pay interest and principal in a manner commensurate with an 'AAA (sf)' rating stress, in our view.

Stranded cost securitizations are typically backed by stranded assets created by statute with credit enhancement provided by true-up mechanisms and reserve accounts. As currently constructed, the enhancement supports our 'AAA (sf)' ratings in accordance with our criteria for stranded cost securitizations. These securities traditionally have been created under state legislation in conjunction with the state utility commission, with the utility as the

seller/servicer of the assets. Key features of the deals include:

- There are irrevocable statutory provisions and regulatory approvals, including the creation of mandatory periodic true-up of a nonbypassable transition charge and an absolute transfer and first-priority security interest in transition property;
- The true-up mechanisms are in place to ensure the transition charge can be adjusted to reflect any deficit in collections, as well as any other credit enhancement accounts; and
- There are typically cross-collateralization features such that all the customer classes help pay down the bonds. There may be certain deals that have rate caps and/or do not allow cross-collateralization.

For more information on legal and economic defeasance, please see "Securitizing Stranded Costs," published Jan. 18, 2001 on RatingsDirect.

As part of our regular surveillance, we reviewed and affirmed 68 classes from 31 stranded cost transactions.

Standard & Poor's will continue to monitor the securitizations and take rating actions as we deem necessary according to our criteria.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

- Standard & Poor's To Explicitly Recognize Credit Stability As An Important Rating Factor, Oct. 15, 2008
- Principles-Based Rating Methodology for Global Structured Finance Securities, May 29, 2007
- Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006
- Securitizing Stranded Costs, Jan. 18, 2001

RATINGS AFFIRMED

AEP Texas Central Transition Funding II LLC

A

Rating

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A2	AAA (sf)
A3	AAA (sf)
A4	AAA (sf)
A5	AAA (sf)

AEP Texas Central Transition Funding LLC
2002-1

	Rating
A-4	AAA (sf)
A-5	AAA (sf)

Atlantic City Electric Transition Funding LLC
2002-1

	Rating
A-3	AAA (sf)
A-4	AAA (sf)

Atlantic City Electric Transition Funding LLC
2003-1

	Rating
A-2	AAA (sf)
A-3	AAA (sf)

Centerpoint Energy Restoration Bond Company, LLC

	Rating
A-1	AAA (sf)
A-2	AAA (sf)
A-3	AAA (sf)

CenterPoint Energy Transition Bond Company II LLC
A

	Rating
A3	AAA (sf)
A4	AAA (sf)
A5	AAA (sf)

2008

	Rating
A-1	AAA (sf)
A-2	AAA (sf)

CenterPoint Energy Transition Bond Company LLC
2001-1

	Rating
A4	AAA (sf)

2008

	Rating
A-1	AAA (sf)
A-2	AAA (sf)

Consumers Funding LLC

2001-1

Rating

A-5 AAA (sf)

A-6 AAA (sf)

Detroit Edison Securitization Funding LLC (The)

2001-1

Rating

A-5 AAA (sf)

A-6 AAA (sf)

Entergy Gulf States Reconstruction Funding I LLC

A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

Entergy Texas Restoration Funding, LLC

Senior Secured Transition

Rating

A-1 AAA (sf)

A-2 AAA (sf)

A-3 AAA (sf)

FPL Recovery Funding LLC

A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

A-4 AAA (sf)

JCP&L Transition Funding II LLC

2006-A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

A-4 AAA (sf)

JCP&L Transition Funding LLC

2002-A

Rating

A-3 AAA (sf)

A-4 AAA (sf)

Louisiana Public Facilities Authority-EGSL

2008

Rating

A-1 AAA (sf)

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A-2 AAA (sf)
A-3 AAA (sf)

Louisiana Public Facilities Authority-ELL
2008

Rating
A-2 AAA (sf)
A-3 AAA (sf)

Massachusetts RRB Special Purpose Trust 2005-1
2005-1

Rating
A-4 BEC AAA (sf)
A-4 AAA (sf)
A-4 CEC AAA (sf)

Massachusetts RRB Special Purpose Trust WMECO-1

Rating
A AAA (sf)

MP Environmental Funding LLC
A

Rating
A-1 AAA (sf)
A-2 AAA (sf)
A-3 AAA (sf)
A-4 AAA (sf)

MP Environmental Funding LLC
B

Rating
Series B AAA (sf)

PE Environmental Funding LLC
A

Rating
A-1 AAA (sf)
A-2 AAA (sf)
A-3 AAA (sf)
A-4 AAA (sf)

PE Environmental Funding LLC
B

Rating
Series B AAA (sf)

PSE&G Transition Funding II LLC
2005-1

Rating
A-3 AAA (sf)

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A-4 AAA (sf)

PSE&G Transition Funding LLC
2001-1

Rating

A-6 AAA (sf)

A-7 AAA (sf)

A-8 AAA (sf)

PSNH Funding LLC
2001-1

Rating

A-3 AAA (sf)

Rockland Electric Company Transition Funding LLC
2004-1

Rating

2004-1 AAA (sf)

RSB BondCo LLC
A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

TXU Electric Delivery Transition Bond Company LLC
2003-1

Rating

A-4 AAA (sf)

TXU Electric Delivery Transition Bond Company LLC
2004-1

Rating

A-3 AAA (sf)

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Criteria | Structured Finance | ABS: Securitizing Stranded Costs

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(Editor's Note: We originally published this criteria article on Jan. 18, 2001. We've republished it following our periodic review completed on Dec. 1, 2016. As a result of our review, we updated the contact information and the related criteria, and corrected a reference in the section "Adequate Provision.")

Electric utilities historically have enjoyed protected monopolistic status, in return for an obligation to provide service to the customer base whenever requested. In return, utilities have made significant long-term investments and entered into long-term power purchase contracts with the expectation that these would be recoverable through customer rates. In 1992, the enactment of the National Energy Policy Act introduced wholesale electric competition into the industry. Since then, almost half the states have taken steps toward a competitive retail market by legislating or ordering frameworks for "retail access," through which all customers will be able to choose their own electric generation supplier. With a competitive market taking shape, many utilities have found themselves saddled with significant unrecoverable contractual and sunk costs, generically known as stranded costs. These stranded costs are not new, but rather have already been approved by regulators and are incorporated in existing utility rates as part of traditional cost-plus regulation. If utilities are to compete in a deregulated market, however, they cannot pass these stranded costs along to customers. In many cases, the inability of a utility to recover a significant portion of these costs would result in significant financial deterioration, and in the worst cases, insolvency.

As noted, many legislatures and state regulatory commissions have established the means by which utilities can avert financial deterioration while also providing customers with lower rates. Asset-backed securitization is one such alternative. In several states, such as California, Pennsylvania, Massachusetts, Texas, New Jersey, Michigan, New Hampshire, Connecticut and Illinois, legislatures have enacted laws that enable utilities to finance the recovery of at least a portion of their stranded costs by issuing bonds backed by a statutory right to recover stranded costs.

In December 1997, the three California investor-owned utilities: Pacific Gas & Electric Co., Southern California Edison Co., and San Diego Gas & Electric Co., securitized more than \$6 billion of their approximately \$28 billion of total stranded investment. During 1998, Illinois Power Co. securitized \$864 million followed by Commonwealth Edison Co.'s \$34 billion securitization transaction. In 1999, one Massachusetts utility and three Pennsylvania utilities completed securitization transactions. Boston Edison Company issued \$725 million of rate reduction certificates. PECO Energy Co. issued \$4 billion, PP & L Inc. issued \$2.42 billion and West Penn Power Company issued \$600 million of transaction bonds. In 2000, PECO issued an additional \$1 billion and in 2001, utilities in New Jersey, Connecticut, Michigan, and Texas may come to market with rate reduction bonds.

Utilities in states that have not yet addressed industry restructuring through legislative action or regulatory order, such as Indiana, Kentucky, Florida, and North Carolina, are generally low-cost producers with limited, if any, stranded assets. These states are much less motivated, therefore, to pursue industry restructuring, let alone securitization, at the present time. Whether or not these states ultimately pass relevant legislation, however, the relative competitive standing of their utilities will inevitably be diluted as high-cost utilities in other states shed a substantial portion of their high-cost assets through securitization.

Standard & Poor's believes that securitization of stranded costs is at least neutral, and generally positive for utility credit quality. The utility acquires cash up front, instead of receiving an increasingly at-risk revenue stream over time. Proceeds of the securitization are expected to be used principally to shrink a utility's total capitalization structure, including retiring debt that carries a higher coupon than that borne by the highly rated securitized bonds. In most cases, these interest savings are passed along directly to customers in the form of lower rates. Generally, the amount of rate reduction bonds that the utilities issued was designed specifically to generate a legislatively mandated rate reduction for customers.

Business and Legal Overview

What Are Stranded Costs?

Stranded costs are broadly defined to include any costs that were incorporated in the traditional regulatory cost-plus scheme that cannot be passed on to customers in a competitive marketplace. The most significant of these stranded costs are investments in high-cost nuclear and fossil plants. They also include deferred and capitalized operating costs, conservation and economic development expenditures, nuclear decommissioning costs, and long-term contractual obligations with high cost nonutility generators.

In the past, utilities constructed large, centrally located plants to gain economies of scale in producing electricity. Extremely long construction lead times and overly aggressive demand forecasts caused management to err on the side of oversupply to meet customer demand. Furthermore, the monopoly environment meant utilities lacked a strong incentive to contain costs. Indeed, the larger a utility's rate base was, the more investment on which the utility could earn a return. In addition, costs were exacerbated by circumstances. The last round of base-load construction occurred in the late 1970s and early 1980s, which was an era of high inflation and high interest rates. Finally, the nuclear incident at Three Mile Island in 1979 resulted in heightened Nuclear Regulatory Commission supervision, extending the timetable for plant completions and elevating capital costs significantly.

Since that time, new technologies have greatly reduced the cost of building generating facilities. Even more importantly, the economics of building smaller plants have continued to advance. The lead time for construction has been drastically reduced, from as much as 10 years to as little as 18 months. This reduction is in part due to the construction of much smaller-scale highly efficient plants. As a result, the cost of incremental generation today is significantly lower than the embedded cost of plant of most utilities. The differential is most evident in nuclear plants. For instance, the 1,143 megawatt (MW) Nine Mile Point 2 nuclear plant, operated by Niagara Mohawk Power, was completed in 1988 at a cost of about \$5,000 per kilowatt (kW), after a construction period of more than 10 years. This compares with a 500 MW gas-fired combined-cycle plant today that can be built in about 18 months at a cost of \$450 to \$550 per kW. While prudence hearings did lead to significant write-offs during the rate base proceedings of Nine Mile Point 2, the bulk of these costs were simply included in rates and are now being recovered from customers over a lengthy period of time.

Developments in Industry Environment

The enactment of the National Energy Policy Act of 1992 (NEPA) marks the beginning of the end of the last major government-protected monopoly. NEPA authorized the Federal Energy Regulatory Commission (FERC) to mandate

that utilities become open-access common carriers for wholesale electric sales, known as wholesale wheeling. Wholesale sales are bulk power sales between utilities or between a utility and a third-party producer. If two utilities are not interconnected, they would need access to a third party's transmission network to complete such a transaction.

The ability of a utility to sell power to an end user that is not within its franchise service territory, or the sale of power from an independent power producer to an end user, is called "retail wheeling." Currently, utilities are not permitted to engage in retail wheeling. However, retail customers, aware that there may be cheaper power sources than their current supplier, are pressuring state regulators to permit them to buy power from alternative suppliers. While most regulators agree that competition will lower the price of power, some assert that the objective is not merely to lower rates, but to provide customers with the option to choose their power provider. The vast majority of utilities and regulators concur that retail wheeling is inevitable, so states have had to grapple with how to make the transition from a regulated to a competitive environment. As mentioned earlier, many states have passed laws to phase in direct access to all customers and most of these legislative initiatives include securitization of stranded costs as a means of reducing utilities' financial exposure to a competitive retail environment.

Recovery of Stranded Costs

Vertically integrated electric utilities provide customers with three basic functions: generation, transmission, and distribution. Because of legal, regulatory, and technological advances, generation no longer displays monopoly characteristics. Transmission and distribution, or the "wires" function, on the other hand, will likely remain natural monopolies for the foreseeable future since it would be prohibitively expensive, and environmentally difficult, to construct redundant wires. Transmission consists of the high-voltage system that moves power in bulk from generating plants to an electric distribution system or a load center. Distribution receives stepped-down power, which is then transported at lower voltages to individual end users.

As part of various state legislative initiatives, utilities are being required to functionally, if not legally, disaggregate the vertically integrated components of their business. The costs of each function will be determined and itemized, or "unbundled," on customers' bills. While customers may purchase the actual electrons from a source other than their local utility, they must continue to transport this power over the distribution wires owned by their local utility. The local utility will use its wires system to charge customers for the services it provides, which will include transmission of power bought from other suppliers. Other services, such as billing and metering, could be maintained by the utility or could be opened to competition as well. Any stranded cost that is identified, isolated, and by mandate recoverable in utility rates, will also be recovered as a "wires charge;" it cannot be recovered as part of a generation charge, since customers may purchase generation from an alternative source.

Stranded costs, which have been realized as such only with the prospect of a competitive market, are included in current utility rates, but they are being amortized over as long a period as 30 to 40 years. Utilities need to accelerate the recovery of these above-market costs as quickly as possible if they are to lower their rates in preparation for a competitive environment.

Statutory Securitization of Stranded Costs

Until now, securitization of stranded assets has been made possible by state statute. In general, such statutes provide that the stranded assets themselves, plus interest on any bonds backed by stranded assets, the costs of servicing the

bonds, and the costs of bond issuance all be collected through imposition of a tariff that is collectible from the utility's customers. While differing in particulars, the legislation in Pennsylvania, California, Illinois, Massachusetts, Texas, Connecticut, New Jersey, and elsewhere shares certain characteristics that are significant from a rating perspective.

The statutes specifically provide for securitization of the stranded costs through their sale to a financing subsidiary, and ultimately, to a trust that issues the bonds. The statutes award true sale status to the transfer of the stranded assets to a finance subsidiary. This should help support the legal conclusion that the transfer constitutes a true sale for bankruptcy purposes.

The statutes also provide that any proposal for a securitization of stranded assets be approved on an irrevocable basis by the relevant utility regulatory commission. The commission must set a tariff schedule. A tariff would be included in the ordinary bills sent to customers, and would amortize the stranded assets over the life of the proposed securitization. The tariff would be a separate itemized charge on the customer's bill, and could be either a fixed charge or tied to electricity usage, in either case included in the utility's wires charge. In scheduling the tariff needed to amortize the assets fully, the commission will take into account the utility's forecast regarding the projected size and demographics of its customer base. Where the tariff is tied to electricity usage, predicted customer usage will be important.

The tariffs that are actually collected from customers may fall short of what was originally anticipated. In addition to defaults in bill payments, the customer base might decline due to economic and/or technological factors, or usage might vary from what was originally predicted. This might happen, for instance, if the winter is unusually warm or the summer particularly cool. These are credit risks that could impact the ability of the tariff to amortize the assets fully. To address these risks, the legislatures have created a statutory form of credit support, known as the "true-up" mechanism. The statutes provide that the utility periodically apply to the commission for a readjustment of the tariffs. The commission must then readjust the tariffs charged to customers, so that the bond amortization schedule is met. This minimizes credit risk, except in the tail end of the transaction after the final true-up has occurred. Liquidity risk will, of course, exist during the periods between true-ups, to the extent that collection shortfalls occur.

The true-up mechanism also may effectively minimize prepayment risk. While there may be a tariff collection shortfall, it is also conceivable that excess collections may be received. This might occur, for example, if the customer base grows at a greater rate than originally anticipated when the tariffs were established. If collections exceed expectations for a particular period, the true-up mechanism could potentially reduce the remaining tariffs accordingly, so that the remaining transaction amortizes as scheduled.

When the utility applies for a true-up, the commission may not grant it immediately. The commission's delay will add to liquidity risk, because the shortfalls in collections to be remedied by the true-up will last for a longer period, until the commission finally grants the true-up. A delay by the commission will not create credit risk during the transaction, because once the true-up is in place, the adjusted tariff will take into account any collection shortfalls caused by its delay. But a delay in the true-up could result in a credit loss at the tail end of the transaction. The commission might take so long to grant the true-up that the final true-up never occurs. The statutes prevent this potential credit loss, as well as limit liquidity risk caused by a delay, by setting a deadline for implementation of the true-up. For example, California requires that the commission implement a true-up within 90 days of each anniversary date of the

transaction. Other statutes simply require that the true-up filing with the commission becomes effective as early as the subsequent month.

The duration of these transactions and the ability to impose true-up periods and tariff collections indefinitely depend initially on whether the statutes impose a limit on how long the tariff may be collected from the utility's customers. Even where no limit is set as a statutory matter, the final true-up period, and the deadline for tariff collection, will depend on the legal final maturity date set for the bonds.

A utility might change hands for some reason, or file under Chapter 11 of the U.S. Bankruptcy Code. Such an event could strike at the heart of a potential securitization. Stranded assets will not be recovered unless the utility continues to provide electricity, bill its customers, transfer the tariff to the securitization trust, and apply for true-ups when necessary. The statutes address this problem by requiring that any successors to the utility, whether through bankruptcy, merger, or sale, must perform all of the utility's obligations in connection with the securitization.

The statutes provide another feature, by providing that, contrary to what would usually occur under the Uniform Commercial Code (UCC), there is a continued security interest in collections that have been commingled with other funds of the utility. This eliminates the usual credit risk associated with commingled funds in the event of a bankruptcy of the utility, although it fails to alleviate the liquidity risk and potential credit risk caused by the automatic stay (see *Protection Against Credit Risk Caused By Commingling*).

Finally, the statutes purport to create new property interests that must be perfected in a manner different from a UCC security interest. However, there is the possibility that stranded assets might still be considered subject to the prior lien of existing mortgage bonds. As a result, proceeds of the securitization might need to be applied to pay down the debt secured by the prior lien. This would, in any event, be positive from a credit perspective, because the bonds being retired (typically general obligation bonds bearing the rating of the utility) would have a higher interest rate than the 'AAA' rated securitized bonds used to retire the obligations.

Significance of Statutory Securitization

To date, stranded cost securitizations rated by Standard & Poor's have been based on legislation promulgated specifically for that purpose. Nevertheless, Standard & Poor's understands that, as a regulatory matter, state public utility commissions have, de facto, historically permitted recovery of stranded costs through rate adjustment.

While public utility commission regulatory action may well be sufficient to accomplish a securitized recovery of stranded costs, Standard & Poor's believes that there may be certain advantages to a legislation-backed securitization. Statutes have the benefit of having undergone the political process. Affected interests are given the opportunity to introduce, and argue for, their respective views. Hearings, drafting and amendments, floor debate, and overall legislative, and press and public scrutiny is the process by which political compromise is achieved and consensus built. The political process is viewed as investing the resulting legislation with a considerable degree of stability and support.

Viewed from the perspective of legal capacity, legislation has other advantages. At the heart of stranded cost securitization is the creation of a property right in the transition charges that serve as the basis for debt service. While it is clear that state legislatures are empowered by due process of law to create property rights, and to define and record how these rights are to be enjoyed, the ability of a state public utility commission to achieve the same end by

regulatory compact may not be as certain.

Statutory status provides both constitutional and political protection against the risk that the creation and pledge of securitization property might be impaired by subsequent amendment. Historical precedent indicates that a legislature is unlikely to reverse itself once it has enacted a statute. Even if a political reversal were to occur, the Pennsylvania, Massachusetts and California statutes recognize that the bondholders possess certain constitutionally protected rights. Both statutes provide that if the right to recover stranded assets is compromised in any way, the bondholders are entitled to adequate compensation.

Nevertheless, in jurisdictions where public utility commissions may reasonably be viewed to have the capacity and authorization to order a recovery of stranded costs through a securitization-type procedure, and in which the commission has a stable history of consistent regulatory action, and in which the courts have paid regular deference to commission order, Standard & Poor's will consider regulatory-based recovery procedures case by case. However, any such consideration will necessarily involve a comparison by Standard & Poor's of the proposed regulating action and its enactment in contrast to rated, statute-based recovery plans.

Overview of Stranded Cost Securitization

Differences From Traditional Asset-Backed Transactions

Several key aspects differentiate the securitization of stranded costs from the securitization of more conventional asset types.

Cash Flow Receivables In a typical securitization, the originator of the assets transfers a pool of receivables to a trust and receives payment based on an agreed-upon value for those receivables. The key in this case is that the receivables have already been created. In contrast, stranded assets are not traditional receivables. Although the statutes create a present property right to future collection there is no initial cash flow backing the debt. Stranded assets represent the present right to the cash flow from receivables that will be created in the future when performance, in this case power generation and delivery, has been provided. But until this performance by the utility company takes place, the customer is not obligated to make any payments. Power generation is thus critical to assure full and timely payment to securityholders. As a result, there is a greater dependence on the utility as seller/servicer to do more than just collect payments on existing receivables and liquidate collateral to the extent needed.

Dependence on Servicer Servicer bankruptcy filings generally cause a change in servicer in most asset-backed transactions to prevent any disruptions in the required servicing and collections on the portfolio. Therefore, a substitute servicer must be ready and willing to take over all servicing responsibilities, if necessary. But unlike in typical securitizations, the transaction cannot fully rely on a substitute servicer. A utility does not just collect payments; it must continue to provide power. Because provision of electricity is fundamentally a necessary service, however, Chapter 7 liquidations are unlikely. In contrast, utilities will continue to operate in Chapter 11 reorganization, and thus, provide power and enforce collection from customers. Security is provided by the statutory mandate that collection obligations must be assumed by any successor corporation, including successors pursuant to reorganization, or otherwise. Due to the regulated nature of the industry a state-by-state review of successor servicing arrangements will be performed by Standard & Poor's.

True-up as Credit Support Credit support is entirely structured within the finances of the typical securitization. In contrast, in these transactions credit support has been provided by the statutory true-up mechanism. The parties must initially come up with a proposed amortization schedule. This schedule determines the tariff to be charged to recover

the stranded costs, as well as the costs of the securitization itself. In setting this tariff schedule, the utility makes certain assumptions about charge-offs and sales over the following year or even decade. These assumptions will necessarily be inaccurate, especially as the date of forecast becomes increasingly remote. As a result, the stranded costs collected from customers could be less than those needed to repay the bonds. The true-up addresses this risk. The statutes provide that the utility periodically apply to the commission for a readjustment of the tariffs. The commission must then readjust the tariffs charged to customers. This effectively eliminates credit risk, except in the tail end of the transaction after the final true-up has occurred.

It should be understood that the true-up is not quite the same thing as an unlimited cash collateral account. Because the true-up will only be as good as collections in the following year, the amount of a current year's shortfall will not be fully recovered in the next year, due to charge-offs and forecast error occurring in that year. The amount will decrease over time, however, as successive true-ups are implemented. Where statutes do not place a limit on the tenor of the bonds and permit indefinite true-ups, the legal final maturity can simply be extended as a structural matter to gain the benefit of additional true-ups. This allows for as many true-ups as necessary to reduce the shortfalls that cannot be collected because they occur in what may have been originally contemplated as the final year of the transaction.

The true-up can make the amortization schedule for the bonds more predictable, unless dramatic consumption changes occur. This is because the true-up may adjust the amount payable to the trust by the customer base to the extent that there has been a shortfall or surplus in the prior period.

Perfection Mechanisms As stated above, the statutes provide for their own methods and location for filing and perfecting stranded assets. This may or may not result in the conclusion that stranded assets are new property interests not subject to UCC filing and priority rules, and thus are not subject to prior liens under the UCC.

Overcollateralization as Additional Credit Enhancement As mentioned earlier, the true-up mechanism will play an integral role in the transaction structure. The frequency of the true-up, for example, will influence the need for additional credit enhancement. Overcollateralization is the most likely form of credit support. Overcollateralization would cover the risks in the stub period following the final true-up, as well as make up for past shortfalls in collections that were never fully true-up in the past.

Sale Accounting and FAS 125 Stranded cost securitizations do not possess sale status as an accounting matter under FAS 125. The Security Exchange Commission's Office of Chief Accountant has indicated that while the utilities may be able to sell the right to recover stranded costs as a legal matter, they will not be able to remove the assets (and associated debt) from their balance sheets under FAS 125. Nevertheless, as long as the transaction is structured as a true sale for legal purposes, Standard & Poor's will "back out" for analytical purposes nonrecourse debt and associated carrying costs from the utility's consolidated financial statements. While off-balance-sheet treatment would have enabled a more clear-cut analysis, Standard & Poor's will attempt to recognize the economic (as opposed to the accounting) reality.

Debt for Tax Treatment Any utility intending to securitize stranded costs will likely seek a private letter ruling from the IRS that states that the sale of the assets constitutes a "debt for tax transaction." In other words, the sale would not result in the immediate recognition of income. If the sale were deemed to provide immediate income, the utility would incur an immediate tax liability as well. This would destroy the economics of a securitization.

The Rating Approach

Specific credit and legal risks that arise in securitizing stranded costs are addressed below. Standard & Poor's pursues a general rating methodology that attempts to stress in cash flows the ability of the true-up mechanism to ensure timely payment of interest and repayment of principal. In addition, it attempts to determine the number of true ups needed to meet these payments, that is, the structure's ability to meet its legal final maturity.

Credit Risks

Inaccuracy in Forecasting As mentioned earlier, the funds necessary to pay the stranded assets of the issuer are dependent on the tariff set by the commission and collected from the utility's customers. Tariff schedules are compiled for each customer class so that, taken together, the tariffs charged will amortize the stranded assets over the life of the securitization, while making timely interest payments. The tariff amounts themselves are based on estimates of cash flows to be collected from the customer base. The tariff amounts are thus determined based on such factors as the utility's forecast of population growth or decline, and seasonality in expected usage.

A shortfall in tariff collections can be caused by lower than expected usage due to:

Unanticipated customer migration (anticipated migration is included in the forecasting). Residential and small business customers are considered low risk in terms of customer migration. Large industrial customers, on the other hand, are considered a significant risk that requires additional stress to the cash flows (see Cash Flows). Additionally, as the term of transition bond issued exceeds the 6-8 years historically seen, technology driven customer migration increases significantly and begins to impact usage from commercial and small business customers.

Unanticipated weather conditions. Seasonal weather fluctuations are studied, and typically accounted for in setting the tariff charge.

Forecast error negatively impacts liquidity on the bonds and may "push out" the maturity of the bonds by requiring additional true-ups before the bonds can be paid out. To capture this risk, historical forecasting error is stressed at a certain multiple depending on the rating sought.

Where the tariff is recoverable from large industrial and commercial customers, Standard & Poor's will require data stratifying these customers by revenues generated. The cash flows will be additionally stressed to account for a potential loss in revenues caused by relocation of those customers with a high concentration risk in revenue generation for the utility.

Certain states have legislated rate caps on either the transaction charge for specific customer classes or on the total customer charge (i.e. through mandated rate reductions). Standard & Poor's will review the cash flow models to confirm that these rate caps are respected in stress scenarios.

Higher-Than-Expected Charge-Off Experience Like other forecasting variables, anticipated charge-offs are included in forecasting for purposes of setting the tariffs. Charge-offs may be higher than expected based on historical experience due to a variety of factors, including economic changes and unforeseen disasters. To account for this risk, charge-off history is stressed by the multiple relevant to the rating sought.

Commingling by Aggregators The recent mandated unbundling of generation, transmission, and distribution charges has paved the way for alternative generation suppliers. The consumer may choose to purchase its generation services from an alternative supplier, while continuing to pay transmission and distribution (wires charge) to the utility. As discussed earlier, the tariff would be included in the wires charge, so that collection of the tariff itself would not be endangered by the existence of competition for generation services. However, commingling risk could exist as a result of potential billing arrangements for the utility's transmission and distribution services on the one hand, and the alternative energy provider's generation services on the other.

Generally, alternative energy service providers (retail electric providers; third-party servicers) may provide a consolidated bill for their generation services and the tariff owed to the utility. Where this is the case, the energy services provider is liable to pay the tariff regardless of whether it has received collections from the ultimate users. As a result, the securitization is exposed to commingling risk, and the resulting loss of commingled tariffs, in the event of the bankruptcy of an energy services provider.

This risk can be mitigated by certain restrictions on the length of time that an energy services provider may commingle funds before consolidated billing and service is terminated. If the energy services provider becomes delinquent, direct and consolidated billing may cease and service and separate billing to the end-user customer would be made up for the tariff. This means that the aggregator could commingle funds for a number of days before consolidated billing were terminated. To address this risk, Standard & Poor's stressed cash flow runs eliminate one month of collections per year at the utility's peak billing cycle.

This or other risks involving alternative energy providers may exist in other stranded cost securitizations. Standard & Poor's will assess these risks and the resulting necessary cash flow stresses on a case-by-case basis.

Estimate of Tariff Based on Collections Curve Generally, utilities are unable to allocate amounts received to various charges on the bill, so they were unable to calculate what percentage of collections constituted tariff collections. To address this problem, the utilities prepared forecasts of the percentages of amounts expected to be received during each of the following six months. These forecasts were based on collections curves developed periodically based on accounting studies and collections studies performed by the companies. For each monthly billing period, collections were estimated over six months based on the collections curve.

When the actual tariff remittances by customers are calculated (on the seventh month following each monthly billing period), either too much or too little may have been paid for that billing period. If the amount remitted has been less than the actual tariffs collected during that six-month period, the shortfall will be made up the following month out of the servicer's (the utility's) own funds. Thus, if the servicer is bankrupt (Standard & Poor's assumption), there is a risk the bondholders will lose that portion of the tariff. If the actual tariff amount has been less than the estimated tariff collections remitted to the trust, the servicer would be entitled to withhold the excess amount paid from the next month's remittances.

It is not clear whether this risk will be present in other securitizations. To date, the risk of lower-than-actual remittances has not been separately stressed in the cash flow runs. The one month of lost collections (see *Commingling by Aggregators*) has been sufficient to cover this risk. Standard & Poor's also has relied on data provided by the company showing relative lack of volatility in the collections curve.

Higher Tariff An increase in tariff resulting from higher true-ups might become burdensome to consumers. This risk might have a spiraling effect, because greater charge-offs or customer migration or decreased usage might result, which in turn would result in the need for increased true-ups. Standard & Poor's will assess this risk by examining the highest per kWh tariff charge reached under the relevant stress scenarios. This risk increases as the term of the transaction increases to 10-15 years given greater technological/migration risk.

Cash Flows Two cash flow runs are generally required in rating stranded costs: a compounding forecast error run and an oscillating forecast error run, implementing the stress scenarios described below. These runs are created to test liquidity as well as the transaction's ability to meet the final maturity of each class of bonds in the transaction. They do so by creating scenarios where the true-up in the tariff amount (the reset of the tariff to reflect prior experience with actual collections and recover prior shortfalls in collections) continuously fails to reflect actual collections.

Compounding Forecast Error Run The compounding forecast error run assumes a compounding stressed error in forecasting resulting in a continual decline in actual tariff collections over what was forecast for that year. Assume, for example, that during year one, sales are 90% of the original sales forecast, that is, forecast error reflecting a multiple of the average forecast error for the customer class, where actual collections are less than expected collections.

At the end of year one, the tariff charge is recalculated assuming that year two customer sales will be what was experienced in year one, that is, 90% of the original expected forecast. Instead, year two sales are only 81% (90% of 90%) of the original sales forecast.

The sales decline is generally based on a multiple of the absolute value of the largest historical non-weather-normalized forecast variance by customer class. This compounding is assumed to continue from year to year over the life of the transaction.

Oscillating Forecast Error Run The oscillating forecast error run assumes a scenario where in one-year tariff collections exceed expectations, so that in the following year, the tariff is reset based on the prior year, only to experience a shortfall in actual collections. Assume for example that the appropriate stressed forecast error is 10%. During year one, sales are 90% (10% below) the original sales forecast. At the end of year one, the tariff is recalculated assuming that year two sales are also 90% of the original forecast. Instead, year two sales are 99% (110% of 90% level) of the original forecast. The tariff for the following year is reset assuming 99% of original forecast collections, only to receive 90% of originally forecast collections. This oscillation between 90% and 99% of original forecast is assumed to continue over the life of the transaction.

Legal Final Maturity The legal final maturity dates on stranded cost transactions are often set at up to two years beyond expected maturities. This additional period acknowledges the long-term nature of the liabilities being rated, and the corresponding possibility that fundamental changes in technology might take place that further stress the transaction in an unforeseen manner. One currently known possibility is that over time customers may increasingly switch to self-generation, which would enable them to cease paying the wires charge and thus, the tariff. Certain transactions have reduced this period by requiring more frequent (e.g. monthly) true-ups during the final year or two of the transaction.

Legal Risks

Reliance on Commission to Implement True-Up, and Potential Delay in Approving the True-Up Standard & Poor's believes that so long as the statute clearly specifies the maximum period before which the commission is compelled to implement the true-up, any shortfall in collections resulting from the delay can be sized and factored into the cash flow projections. Certain structures may permit the application of principal collections as liquidity for any interest payments due to noteholders during any true-up delay. In the absence of such features, adequate provision for liquidity and additional credit support should be demonstrated to Standard & Poor's.

Adequate Provision Law permits alteration or limitation of right to transition property and right to collect tariffs if "adequate provision" is made to the bondholders. Although there has been no conclusive demonstration as to what constitutes "adequate provision," and how such alteration or limitation would affect timely interest and principal payments on the bonds, Standard & Poor's, in rated transactions, has received legal assurances that any such alteration would be constitutionally prohibited were it substantially to impair the security for the bonds. While such assurances do not really define adequate provision, Standard & Poor's believes, in practice, that adequate provision should prove to be the functional equivalent of the pledged transition property.

Stranded Assets to Aid Industry Restructuring

Securitization of stranded assets provides an efficient method electric utilities can use to quickly free themselves from the high cost of stranded assets that prevents them from becoming players in the emerging competitive retail generation market. At the same time, the statutory true-up mechanism provides strong credit support that has withstood 'AAA' stress criteria applied by Standard & Poor's.

Related Criteria

- Post-Default Ratings Methodology: When Does S&P Global Ratings Raise A Rating From 'D' Or 'SD'?, March 23, 2015
- U.S. Public Finance: Electric And Gas Utility Ratings, Dec. 16, 2014
- Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings, Oct. 24, 2013
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Global Investment Criteria for Temporary Investments in Transaction Accounts, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Use of CreditWatch And Outlooks, Sept. 14, 2009
- U.S. Legal Criteria For "Recycled" Special-Purpose Entities, Sept. 19, 2002

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Version 3

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A proposal to create Legislation.

Ontario's Fair Hydro Plan Act, 2017, if enacted

A proposal to create Legislation.

Ontario's Fair Hydro Plan Act, 2017, if enacted

EXPLANATORY NOTE TO BE ADDED BY LEGISLATIVE COUNSEL
TO ANY FINAL BILL PRIOR TO INTRODUCTION.

[Insert explanatory note.]

[Notes re this draft:

- all numbering of provisions may need to be re-done
- will need to check all definitions to ensure (1) that they are needed; and (2) that they work properly wherever the term is used in the Bill.
- additional consequential amendments likely required still
- overall organization of provisions still TBC (for now just trying to get all of the elements drafted and will reconsider architecture later)
- need to check consistency of various phrases (e.g. *during/for/in respect of* reference period; *owner of RA/IA* vs. *RA/IA owner*; etc.)]

Preamble

The Government of Ontario is committed to fostering the development of a clean, modern and reliable electricity system with a diverse supply mix. The Government is also committed to removing barriers to and promoting opportunities for renewable and clean energy projects.¹

The Government of Ontario has established a regulatory framework related to the generation and sale of electricity, which has promoted and continues to promote significant investment to enable phasing out of coal fired generation, modernizing sites and facilities in the Province for the generation of electrical energy and the production therefrom,² and conservation and demand management.

The Government of Ontario is committed to ensuring that the costs of these investments, and the raising of money to fund the investments,³ are allocated fairly among present and future generations of consumers.

Therefore, Her Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

¹ Note: please see the preamble of the *Green Energy Act, 2009*.

² Note: please see clause 92A (4) (b) of the Constitution, 1867: “des emplacements et des installations de la province destinés à la production d'énergie électrique, ainsi que de cette production meme”.

³ Note: please see opening flush of s. 92A (4) of the Constitution Act, 1867

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PART I GENERAL

Interpretation

Definitions

1xx. (1) In this Act,

“Board” means the Ontario Energy Board; (“French”)

“clean energy adjustment” means the amount determined under section 10xx; (“French”)
[Note - will need to check throughout the draft that references to CEA are clear as to whether it’s the total CEA in respect of a reference period vs. the portion payable by a specified consumer.]

“clean energy benefits” means, in respect of a reference period, the value of the benefits determined to be derived by the specified consumers during the reference period as a result of the clean energy initiative, including as a result of past, present and expected future incurrences of clean energy costs; (“French”)

“clean energy costs” means, in respect of a reference period, the value of the costs allocated to specified consumers during the reference period as a result of the clean energy initiative, including as a result of past, present and expected costs incurred in respect of,

- (a) the estimated costs to be incurred by the IESO under section 25.33 of the *Electricity Act, 1998* or any provision that is the successor to that provision, which relate to contracts for,
 - (i) renewable energy generation or capacity,
 - (ii) conservation and demand management, including storage,
 - (iii) energy efficiency,
 - (iv) natural gas generation and capacity, excluding contracts relating to amounts payable by the IESO under section 78.2 of the *Ontario Energy Board Act, 1998* and excluding such other contracts as may be prescribed, or
 - (v) payments made or expected to be made under section 78.5 of the *Ontario Energy Board Act, 1998*, and

(b) such other estimated costs as may be prescribed; (“French”)

“clean energy initiative” means the policies of the Government of Ontario related to,

- (a) fostering the growth of and investment in clean and renewable energy sources and technologies,
- (b) removing barriers to and promoting opportunities for clean and renewable energy sources and technologies, and
- (c) promoting conservation and demand management; (“French”)

“electricity vendor”⁴ means the IESO, a licensed distributor, a licensed retailer or such other person as may be prescribed; (“French”)

“fair adjustment” means the determination of the rate payable for electricity in accordance with Part II; (“French”)

“Financial Services Manager” means Ontario Power Generation Inc. [or such other person or entity as may be appointed as the Financial Services Manager by the Minister under section **]; (“French”)

“Financing Plan” means the plan prepared under section X, as amended from time to time in accordance with this Act; (“French”)

“funding obligation” means a payment obligation incurred by or on behalf of the regulatory asset owner or an investment asset owner under section x; (“French”)

“IESO” means the Independent Electricity System Operator continued under Part II of the *Electricity Act, 1998*; (“SIERE”)

“IESO funding shortfall” means, in respect of a reference period, the amount determined under section 20xx for the reference period; (“French”)

“investment asset” means the investment asset created as described in section 22xx; (“French”)

“investment asset owner” means a financing entity that acquires an investment interest in the investment asset; (“French”)

⁴ Note - this is similar to the definition of “electricity vendor” in the Ontario Rebate for Electricity Consumers Act, 2016

“investment interest” means an ownership interest in the investment asset, which entitles an investment asset owner to the rights and benefits specified in the agreement under which the ownership interest is transferred;

“invoice amount” means the amount, determined in accordance with subsections (2.1) and (2.2) and the regulations, that is payable by a specified consumer for the provision of electricity in Ontario during a period of time specified on an invoice issued by an electricity vendor; (“French”)

“licensed distributor” means a person licensed under Part V of the *Ontario Energy Board Act, 1998* to own or operate a distribution system; (“French”)

“licensed retailer” means a person who is licensed under Part V of the *Ontario Energy Board Act, 1998* to retail electricity; (“French”)

“Minister” means the Minister of Energy or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; (“ministre”)

“prescribed” means prescribed by the regulations; (“prescrit”)

“reference period” means,

- (a) the period beginning on May 1, 2017 and ending on October 31, 2017,
- (b) every six-month period following the period mentioned in clause (a) or such shorter period as may be set out in the Fair Allocation Plan; (“French”)

“refinancing” means a repayment or repurchase of a funding obligation for cancellation by or on behalf of an investment asset owner by applying the net proceeds obtained by the owner incurring one or more other funding obligations; (“French”)

“regulation” means a regulation made under this Act; (“règlement”)

“regulatory asset” means the right established under section X to recover the IESO funding shortfall; (“French”)

“representative consumer” means a consumer who meets the criteria set out in subsection (3); (“French”)

“specified consumer” means,

- (a) a person who has an account with an electricity vendor for the supply of electricity, receives an invoice in respect of the account and meets the criteria set out in subsection (2); or
- (b) such other person as may be prescribed; (“French”)

“Toronto Hydro” means Toronto Hydro-Electric System Limited; (“French”)

“transfer” means an assignment, conveyance, disposition or sale; (“French”)

Specified consumers

(2) For the purposes of clause (a) of the definition of “specified consumer” in subsection (1), the person must meet any one of the following criteria:

1. The person has a demand for electricity of 50 kilowatts or less, or such other amount as may be prescribed.
2. The person annually uses not more than 250,000 kilowatt hours of electricity, or such other amount as may be prescribed.
3. The person carries on a business that is a farming business for the purposes of the *Farm Registration and Farm Organizations Funding Act, 1993* and either holds a valid registration number assigned under that Act or the has had the obligation to file a farming business registration form waived pursuant to an order made under subsection 22 (6) of that Act.
4. The person’s account with the electricity vendor relates to,
 - i. a dwelling,
 - ii. a property within the meaning of the *Condominium Act, 1998*,
 - iii. a residential complex within the meaning of subsection 2 (1) of the *Residential Tenancies Act, 2006*, without regard to section 5 of that Act, or
 - iv. a property that includes one or more housing units and that is owned or leased by a co-operative within the meaning of the *Co-operative Corporations Act*.
5. The person satisfies such criteria as may be prescribed.

Invoice amount

(2.1) Subject to subsection (2.2) and the regulations, the invoice amount for a specified consumer includes the following amounts:

1. In circumstances where the electricity is provided by a licensed distributor or a licensed retailer, the following:
 - i. The commodity price of the electricity used during the invoice period.
 - ii. The rates and charges set out in the applicable rate order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998*.
 - iii. Any adjustment on the invoice required under section 25.33 of the *Electricity Act, 1998*.
 - iv. The amount of any harmonized sales tax payable [by the consumer?] under Part IX of the *Excise Tax Act* (Canada);
 - v. Any other amounts as may be prescribed.
2. In circumstances where the electricity is provided by the IESO, such amounts as may be prescribed. (“French”)

Same, exclusions

(2.2) Except as otherwise prescribed by the regulations, the invoice amount does not include any of the following amounts:

1. The balance of any amounts carried forward from previous invoices.
2. Penalties or interest.
3. Charges that do not relate to the use of electricity.
4. Any of the following charges that may be set out in an order issued by the Board under subsection 78 (3) of the *Ontario Energy Board Act, 1998*:
 - i. A fixed monthly service charge payable by a generation facility within the meaning of section 56 of the *Ontario Energy Board Act, 1998* and classified as “microFIT”.
 - ii. A charge labelled as a “specific service charge” or “retail service charge”.

iii. A rate rider.

5. Any other prescribed amounts.

Representative consumer

(3) For the purposes of the definition of “representative consumer” in subsection (1), the consumer,

- (a) purchases electricity directly from Toronto Hydro;
- (b) has an account with Toronto Hydro that falls within a residential-rate classification as specified in a rate order made by the Board under section 78 of the *Ontario Energy Board Act, 1998*;
- (c) is invoiced by Toronto Hydro on a monthly basis;
- (d) is not invoiced by Toronto Hydro for electricity on an equal monthly payment plan or an equal billing plan; and
- (e) uses, on average, 750 kilowatt hours of electricity each month.

Transfer

(4) For greater certainty, a transfer of the regulatory asset or a portion of the regulatory asset includes any act of the IESO by which the IESO purports to dispose of its interest in the regulatory asset with the result of a named person becoming the owner of an investment interest.

Effect of invalidity, etc.⁵

2xx. (1) For greater certainty, all of the provisions of this Act remain in full force and effect, even if some provisions are held to be invalid, the intention of the Legislature being to give separate and independent effect to the extent of its powers to every provision contained in this Act.

Same, funding obligation

(2) The fact that any provision of this Act is held to be invalid or ceases to be in effect for any reason does not affect a funding obligation that was incurred under this Act before the day that the provision was held to be invalid or ceased to be in effect.

Purpose

3xx. (1) The purposes of this Act are,⁶

⁵ Note: this is from the *Climate Change Mitigation and Low-carbon Economy Act, 2016*

- (a) to ensure that clean energy costs are fairly allocated among specified consumers over time and that the process by which the Province raises money to fund the costs reflects the fair allocation; and
- (b) to recognize that clean energy benefits that have accrued and that will accrue over time will continue to benefit present and future electricity consumers in the Province.

Crown bound

4xx. This Act binds the Crown.

Protection and assurances

Prohibition

5xx. (1) The Crown shall not do anything that would,

- (a) hinder, delay, impair or prejudice the charging, collection or remittance of the clean energy adjustment;
- (b) except as expressly permitted by this Act, reduce the amount of the clean energy adjustment or lower the priority of the clean energy adjustment over other debts; or
- (c) adversely affect an investment asset or a funding obligation.

Clarification with respect to regulations

(2) For greater certainty, the things prohibited under subsection (1) include the making or approving of a regulation under this Act.

Agreements for compensation

(3) The Minister may, with the approval of the Lieutenant Governor in Council, enter into agreements on behalf of the Province of Ontario with any person in respect of this Act, including agreements regarding financial commitments, financial arrangements, indemnities or similar transactions.

PART II FAIR ADJUSTMENT

⁶ Note: Please see the *Electricity Act, 1998* for much of the wording proposed in this section.

Fair adjustment, May 1, 2017 to April 30, 2018

Definition

6xx. (1) In this section,

“average baseline invoice amount” means the average monthly invoice amount that would be payable by a representative consumer under the average baseline rate; (“French”)

“average baseline rate” means the average rate that would be payable effective May 1, 2017 by the class of consumers prescribed by the regulations under the *Ontario Energy Board Act, 1998* for the purposes of subsection 79.16 (1) of that Act, as determined by the Board by applying the method prescribed by the regulations under clause 79.16 (1) (b) of that Act; (“French”)

“sub-meter customer” means a person who is supplied electricity by a specified consumer, if an invoice for the electricity is issued to the person by the specified consumer, by an agent of the specified consumer or by a unit sub-meter provider providing unit sub-metering for the specified consumer; (“French”)

Rate determination

(2) Subject to subsection (3), [to more fairly measure and allocate the clean energy costs and clean energy benefits among present and future generations of specified consumers,] the rate for electricity payable by a specified consumer for the period beginning on May 1, 2017 and ending on April 30, 2018 is the average rate that would be payable by a representative consumer in order for the representative consumer to receive a monthly invoice amount that is 25 per cent less than the average baseline invoice amount.

Sub-meter customers

(3) A specified consumer who provides electricity to a sub-meter customer and any unit sub-meter provider who provides unit sub-metering for the specified consumer shall ensure that the rate payable by each sub-meter customer is the rate determined under subsection (2).

Determining rate

(4) The rate mentioned in subsection (2) shall be,

- (a) determined by the Board within seven business days after this section receives Royal Assent; and
- (b) effective as of the first day of the calendar month immediately following the determination.

Transition

(5) If, for technical or operational reasons, an electricity vendor, specified consumer or unit sub-meter provider is unable to adapt its invoices to comply with this section by the time it issues its first invoice for electricity consumed on or after May 1, 2017,

- (a) the electricity vendor, specified consumer or unit sub-meter provider shall adapt its invoices as soon as possible and, in any event, no later than [August 1, 2017]; and
- (b) the electricity vendor, specified consumer or unit sub-meter provider shall ensure that any specified consumer or sub-meter customer invoiced at a rate higher than the applicable rate receives the difference between the rate shown on their invoice and the applicable rate as a lump sum credit on the first invoice issued after the invoices have been adapted or by such other means as may be prescribed by the regulations.

Fair adjustment, May 1, 2018 to April 30, 2022

7xx. The Lieutenant Governor in Council may, [to more fairly measure and allocate the clean energy costs and clean energy benefits among present and future generations of specified consumers,] make regulations prescribing the rate for electricity payable by specified consumers and sub-meter customers during the period beginning on May 1, 2018 and ending on April 30, 2022.

PART III CLEAN ENERGY ADJUSTMENT

Specified consumers to pay clean energy adjustment

8xx. (1) Upon receipt of an invoice that includes a clean energy adjustment, a specified consumer shall pay the clean energy adjustment to the electricity vendor, as agent of the investment asset owners, in accordance with such terms of payment as may be specified in the invoice, which may include terms relating to late payment fees and interest charges.

Same

- (2) For greater certainty, subsection (1) applies regardless of,
 - (a) whether the clean energy adjustment is inconsistent with the fair allocation calculation applicable at the time when the payment is due; and
 - (b) whether the clean energy adjustment relates to funding obligations that were incurred in a manner that was inconsistent with the Financing Plan.

Indebtedness of specified consumer

(4) An unpaid clean energy adjustment that is required to be paid by a specified consumer under this section constitutes indebtedness of the consumer to each investment asset owner in respect of each owner's respective interest in the investment asset.

Same

(5) The indebtedness mentioned in subsection (4) is a single and separate debt obligation owed by the specified consumer and may be enforced independently from any other payment obligation or indebtedness owing by the specified consumer under the invoice or otherwise.

Irrevocability of clean energy adjustment

9xx. (1) The amount of the clean energy adjustment shown on an invoice issued to a specified consumer under this Act is determinative of the amount of the consumer's indebtedness created by the adjustment and is irrevocable upon invoicing the consumer and may not be set off or by passed.

Exception

(2) Subsection (1) does not apply to the extent that there is a calculation error by the electricity vendor.

Determination of clean energy adjustment

10xx. (1) The clean energy adjustment payable by all specified consumers in respect of a reference period shall be determined as follows:

1. Calculate the estimated finance amount for the reference period in accordance with Schedule 1 and such additional rules as may be prescribed.
2. Add the true up amount for the reference period, as determined in accordance with the prescribed method, to the estimated finance amount calculated under paragraph 1.

True up amount

(2) For the purposes of paragraph 2 of subsection (1), the Lieutenant Governor in Council may make regulations prescribing the method for determining the true up amount, having regard to the following principles:

1. The true up amount should serve to ensure that the collection of the clean energy adjustment is sufficient to pay the estimated finance amount when it is due.
2. The method for determining the true up amount should take into account historical and reasonably foreseeable,

- i. differences between amounts billed and amounts collected due to various factors, including applicable taxes, consumer defaults and delays, billing lags and write-offs, and
- ii. variations in billings due to variations in electricity consumption.

IESO to issue remittance notice to electricity vendors

11xx. (1) The IESO shall, in accordance with the regulations, issue a remittance notice to each electricity vendor for the electricity vendor's portion, as determined in accordance with the regulations, of the clean energy adjustment in respect of a reference period.

IESO to collect

(2) The IESO shall, as an agent of the investment asset owners, collect the clean energy adjustment from electricity vendors [in accordance with the monthly settlement process set out in the market rules made under section 32 of the *Electricity Act, 1998*].

Collection account

(3) All of the following amounts received by the IESO shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (5), be deposited promptly into an account established for the purposes of collecting those accounts:

- 1. Amounts described in subsection 12 (4).
- 2. Payments made by specified consumers directly to the IESO as electricity vendor under subsection 8 (1).

Same, held in trust

(4) All amounts received by the IESO in respect of the clean energy adjustment shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (6), be held in trust for the investment asset owners or a secured party to whom a security interest in an investment interest is granted under this Act.

IESO to remit

(5) The IESO shall remit amounts received by it in respect of the clean energy adjustment to or for the benefit of the investment asset owners in accordance with the regulations.

Collection of outstanding amounts, regulatory asset

(6) If the total clean energy adjustment payable by specified consumers in respect of a reference period is less than the amount contemplated to be payable under the

applicable fair allocation calculation made by the Financial Services Manager under Part IV, the IESO may collect the difference from specified consumers.

Electricity vendor to invoice specified consumers

12xx. (1) The electricity vendor shall issue an invoice to each specified consumer for the consumer's amount of the clean energy adjustment in accordance with the regulations.

Electricity vendor to collect

(2) Each electricity vendor shall, as an agent of the IESO and the investment asset owners, collect the clean energy adjustment from specified consumers [in accordance with the monthly settlement process set out in the market rules made under section 32 of the *Electricity Act, 1998*].

Pro rating of payments

(3) If an electricity vendor receives a payment made by or on behalf of a specified consumer in respect of amounts payable under one or more invoices and the amount paid is less than the total amount payable, the electricity vendor shall allocate the payment on a pro rata basis to the clean energy adjustment and other amounts payable under the relevant invoices in respect of electricity charges for the same invoice period.

Held in trust

(4) All of the following amounts received by an electricity vendor shall, until paid to or for the benefit of the investment asset owner in accordance with subsection (5), be held in trust for the investment asset owners or a secured party to whom a security interest in an investment interest is granted under this Act:

1. Payments received from or on behalf of specified consumers under subsection 8 (1).
2. Portions of payments received from or on behalf of specified consumers under subsection 8 (1) that are allocated to the clean energy adjustment under subsection (3).
3. Any proceeds arising from the exercise and enforcement of any rights and interests under or in respect of the investment asset.

Remittance to IESO

(5) Each electricity vendor other than the IESO shall remit amounts described in subsection (5) to the IESO for the benefit of the investment asset owners or secured parties in accordance with the regulations.

Regulations

(6) If an electricity vendor fails, in the manner described in the regulations, to comply with the requirements of this section, the electricity vendor shall take such steps as the regulations may prescribe.

PART IV IMPLEMENTATION

FINANCIAL SERVICES MANAGER

Appointment

13xx. (1) [Note: To be elaborated.]

Termination

(2) The Minister may by written order terminate the appointment of an appointee as the Financial Services Manager if,

- (a) the Minister has advised the appointee that the Financing Plan is either inconsistent with or is being implemented in a manner that is inconsistent with the principles set out in section x;
- (b) the appointee has been afforded a reasonable opportunity to consider and address the inconsistency; and
- (c) the appointee is unwilling or unable to address the inconsistency to the satisfaction of the Minister.

Replacement

(3) Upon terminating an appointment, the Minister may, in accordance with the regulations, appoint a new person or entity as the Financial Services Manager.

Duties and powers

14xx. (1) The Financial Services Manager shall perform the duties assigned to it under this Act and may administer the investment asset on behalf of the investment asset owner.

Same

(2) The administration of the investment asset may include the following:

- 1. Providing information, in accordance with the regulations, to the Board in respect of funding obligations and the determination of the clean energy adjustment in accordance with section XX.

2. Providing information to electricity vendors, including the IESO, in respect of obligations under Part III.
3. Such other matters as may be prescribed.

Review of costs

(3) The Board shall review the administrative costs of the Financial Services Manager in accordance with the regulations.

FAIR ALLOCATION AMOUNT

Financial Services Manager to calculate fair allocation amount

15xx. (1) The Financial Services Manager shall calculate the fair allocation amount for the purposes of,

- (a) fairly measuring and allocating the estimated clean energy costs and estimated clean energy benefits among the specified consumers in respect of each reference period; and
- (b) aligning funding obligations that may be incurred during each reference period with the allocation of the estimated clean energy costs and estimated clean energy benefits across present and future generations of specified consumers.

Amount

(1.1) The fair allocation amount in respect of a reference period is the sum of the following amounts:

1. The amount, if any, by which the estimated [clean energy costs] [clean energy benefits] to be allocated to specified consumers in respect of the reference period exceeds the estimated amount of [the global adjustment] that would be borne by the specified consumers in respect of clean energy costs [in the absence of this Act].
2. An allocable portion of the value of any fair adjustment, determined in accordance with subsection (3).

Principles

(2) In calculating the fair allocation amount [or in developing the fair allocation calculation?], subject to subsection (3), the Financial Services Manager shall have regard to the following principles:

1. Clean energy costs allocated to the specified consumers in respect of a reference period should be allocated in proportion to the clean energy benefits attributed to the specified consumers in respect of the reference period.
2. The clean energy benefits attributed to the specified consumers in respect of a reference period should be determined based on **[Insert principles]**.
3. The fair allocation calculation should include reasonable assumptions regarding the following:
 - i. The time value of money or the rate of inflation, for the purpose of equating nominal amounts over time.
 - ii. The expected number of specified consumers for each reference period.
 - iii. The expected electricity consumption rates for each reference period.

Allocation of fair adjustment

(3) If, before the Financial Services Manager has calculated the fair allocation amount in respect of a reference period, a fair adjustment has been made under Part II in respect of the reference period, the calculation shall include a portion of the value of the fair adjustment in the fair allocation calculation for each future reference period.

Amendments to the fair allocation calculation

(4) The Financial Services Manager may amend the fair allocation calculation from time to time, as the Financial Services Manager considers appropriate, having regard to the requirements of this Act.

Submission of fair allocation to Minister

(5) The Financial Services Manager shall provide to the Minister the fair allocation calculation and any amendments to the fair allocation calculation.

Effective date

(6) The fair allocation calculation or an amendment to the fair allocation calculation takes effect on the day that is 30 days after the fair allocation calculation or the amendment, as the case may be, is provided to the Minister in writing.

Publication

(7) The Minister shall ensure that the fair allocation calculation and any amendments to it are made available to the public in a manner that the Minister considers appropriate.

FINANCING PLAN

Financial Services Manager to prepare Financing Plan

16xx. (1) The Financial Services Manager shall prepare and provide to the Minister a written plan entitled the Financing Plan to be used by the Financial Services Manager to evaluate whether potential funding obligations should be incurred or potential transfers should be made for the purposes of this Act.

Principles

(2) In preparing the Financing Plan, the Financial Services Manager shall have regard to the following principles:

1. Any incurrence of a funding obligation should reasonably align the expected finance amount determined under Schedule 1 that would become due and payable during a reference period with the fair allocation amount determined for the reference period under this Part as of the time of the incurrence, in each case after reducing the fair allocation calculation by the amount of any fair adjustment for the reference period.
2. Incurrences and transfers should be implemented in a manner that, as the Financial Services Manager considers to be reasonable, is cost effective and reflects prevailing market terms and conditions.
3. Reasonable assumptions should be made regarding such matters as may be prescribed.

[Note for reference: List of items for consideration in regulation: (a) anticipated IESO funding shortfalls and related transfer amounts; (b) the maturities of funding obligations; (c) the availability of refinancings, redemption opportunities and liquidity terms and conditions in order to achieve the objective contemplated in section X(1)(a); (d) the availability of currency and interest rate hedging facilities for the purpose of mitigating any differences between the expected finance amounts becoming due and payable during a reference period and the fair allocation amount for the reference period; (d) the amount and potential variability of interest rates and related financing costs; (e) available capital markets in which funding obligations may be incurred.]

Amendments to approved plan

(3) The Financial Services Manager may amend the Financing Plan at any time, without the approval of the Minister, subject to the requirements set out in this section.

Limitation, first five year period

(4) In respect of each reference period from May 1, 2017 to April 30, 2022, no funding obligation shall be incurred that would become payable during the reference period and result in a clean energy adjustment for the reference period unless,

- (a) no fair adjustment has been made under Part II in respect of the reference period; or
- (b) if a fair adjustment has been made under Part II in respect of the reference period, the funding obligations incurred would not be payable during the reference period in an amount that exceeds the [difference between the fair allocation amount for the reference period and the amount of the fair adjustment for the reference period].

Confidentiality of plan

(4) The Financing Plan is deemed to be a record subject to section 17 of the *Freedom of Information and Protection of Privacy Act*.

Implementation of Financing Plan

17xx. (1) The Financial Services Manager shall incur funding obligations and make transfers in material conformity with the applicable Financing Plan.

Same

(2) For greater certainty, section [paramountcy of funding obligations] applies despite the failure of the Financial Services Manager to comply with subsection (1).

Financing entities

(3) In accordance with the Financing Plan, the Financial Services Manager may establish one or more financing entities that may incur funding obligations and make transfers.

Prohibition

(3) The Financial Services Manager shall not provide for funding obligations to be incurred with any recourse to any assets of an electricity vendor, the Board, the Province or the Lieutenant Governor in Council, except to the extent that any of these persons or entities may be liable to perform obligations or duties arising under this Act or under the express terms of a funding obligation.

Effect of amendment to Fair Allocation Plan

(4) No funding obligation incurred and no transfer made by the Financial Services Manager shall be affected by any inconsistency with the Financing Plan, including any inconsistency with the principles set out in section X.

PART V THE REGULATORY ASSET

Interpretation, portion of regulatory asset

18xx. If a transfer under this Part provides for the transfer of a portion of the regulatory asset, any references in this Part to the regulatory asset are deemed to be references to the portion of the regulatory asset transferred.

[Note: This is meant to assist with clarity in the subsequent provisions.]

Variance account

19xx. (1) The Board shall issue an accounting order to authorize the IESO to do the following:

1. Create a variance account for the purposes of this Act.
2. Record the IESO funding shortfall in the variance account from time to time.
3. Recover the IESO funding shortfall in accordance with section X and the regulations.

No hearing

(2) The order of the Board shall be made in writing and without holding a hearing.

No appeals, etc.

(3) No appeal lies from the order of the Board.

IESO funding shortfall

20xx. (1) The IESO shall determine the IESO funding shortfall for each month in the following manner:

1. Calculate the sum of all invoice amounts issued to specified consumers for the month if Part II of this Act did not apply.
2. Calculate the sum of all invoice amounts issued to specified consumers for the month.
3. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1, and make any other adjustments as may be prescribed.

Same

(2) To the extent that the IESO funding shortfall for any month is based on an estimate of the electricity used by specified consumers, the IESO shall record an

adjustment in the variance account in the following month to reflect the difference between the estimate and the electricity actually used by specified consumers.

Recording of IESO funding shortfall

(3) IESO shall record the IESO funding shortfall from time to time, including adjustments resulting from the exercise of the right of recovery under section 21 and any transfer under section 22, in the variance account.

Recording determinative

(4) A recording of the IESO funding shortfall in the variance account is determinative of the amount of IESO funding shortfall at the time of the recording.

Regulatory asset established

21xx. (1) The IESO has the right, exercisable in accordance with this Act and the regulations, to recover the IESO funding shortfall.

Same, restrictions

(2) The IESO's right to recover the IESO funding shortfall under subsection (1) is subject to the following:

1. The IESO shall not be entitled to collect the IESO funding shortfall from specified consumers before May 1, 2022.
2. The process by which the IESO may recover the IESO funding shortfall shall be established by the Board, having regard to the amount of the IESO funding shortfall from time to time and the [fair allocation calculation].
3. Such other restrictions as may be prescribed.

Transfer of regulatory asset

22xx. (1) The IESO may transfer all or a portion of the regulatory asset to any financing entity under the Financing Plan, which transfer creates the investment asset.

Same

- (2) Upon receipt of any payment in consideration for the transfer,
 - (a) the IESO shall record the payment as a reduction of the IESO funding shortfall in the variance account; and
 - (b) unless otherwise provided for in this Act, the IESO shall have no further right, title or interest in, or any obligations in respect of, the regulatory asset or in the investment asset created by the transfer.

Same

(3) Upon transfer, the financing entity becomes an investment asset owner and acquires an investment interest.

Validity of transfer

23xx. (1) A transfer of a regulatory asset under this Act is a valid and enforceable sale and absolute transfer to the investment asset owner of the regulatory asset, and the investment asset created by the transfer shall be immediately vested in the transferee.

Same

(2) Without limiting subsection (1), any transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of IESO's right to recover the IESO funding shortfall, and not merely as a security interest, and upon the absolute transfer the transferor shall retain no right, title or interest in the regulatory asset, including all rights to recover the IESO funding shortfall.

Deemed perfection, etc.

(3) At the time a transfer of a regulatory asset is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the transferee shall have priority over any liens in favour of those persons.

PART VI

THE INVESTMENT ASSET

Interpretation, investment asset

24xx. If a transfer under this Part provides for the transfer of an investment asset, any references in this Part to the investment interest are deemed to be references to the specific investment interest transferred.

Investment asset established

25xx. (1) The investment asset constitutes a current and irrevocable property right and interest consisting, collectively, of the following rights and interests without duplication:

1. The right to impose, bill, invoice, collect and receive the clean energy adjustment from specified consumers, including the right to determine the amount of the clean energy adjustment in accordance with this Act.

2. The right to receive and collect all amounts in respect of the clean energy adjustment that are imposed, billed and invoiced under this Act, including any amounts that all amounts in respect of the clean energy adjustment that are held by electricity vendors or other prescribed parties.
3. All rights and entitlements under such accounts as may be prescribed by regulation and all amounts on deposit in such accounts.
4. The right to enforce the duties and obligations under this Act of each electricity vendor to impose, attribute, charge, bill and invoice the clean energy adjustment.
5. The right to enforce the duties and obligations under this Act of each electricity vendor to collect, receive and remit amounts received by it in respect of the clean energy adjustment, including all collections and the proceeds of any enforcement action undertaken by an electricity vendor to recover payment of the clean energy adjustment.
6. All rights of any kind (whether in tort, contract or otherwise) that attach or are attendant or incidental to any of the other property rights or interests that comprise the regulatory asset owner's regulatory asset.
7. All revenue, collections, claims, payments, money and proceeds of or derived from the rights described in paragraphs 1 to 6, regardless of whether such revenue, collections, claims, payments and proceeds are imposed, invoiced, collected and maintained together with or commingled with other revenue, collections, claims, payments, money and proceeds.

No set off, etc.

(2) The investment asset shall not be set off or reduced by any person in any circumstance, including,

- (a) by a consumer, an electricity vendor, an agent of the investment asset owner or an owner of distribution system assets in the Province;
- (b) in connection with any default, bankruptcy, reorganization or other insolvency proceeding of a person mentioned in clause (a); or
- (c) by any affiliate or successor of a person mentioned in clause (a).

Exercise of rights

(3) The rights of the investment asset owner to collect and enforce its rights and interests in, to and in respect of the investment asset against a specified consumer shall be exercised in accordance with section [xx] of the *Personal Property Security Act*.

Collective action required

(4) If the investment asset owner owns a right or interest in the investment asset that comprises less than the entire property right and interest constituted by the investment asset, the right or interest shall only be enforced by the investment asset owner collectively and in coordination with all other investment asset owners, and any agreement among that collective in furtherance of the collective action shall be valid and binding on the investment asset owner as a collective in accordance with its terms.

[Note: Successors may need to be addressed here.]

Transfer of investment interest

26xx. An investment asset owner may transfer all or a portion of its rights and interests in an investment interest to any other investment asset owner, including by way of a transfer of a divided or an undivided interest, in accordance with the Financing Plan.

Validity of transfer

27xx. (1) A transfer of an investment interest under this Act is a valid and enforceable sale and absolute transfer of the investment interest and confers upon the owner of the investment interest acquired a valid property right and interest in, to and under the applicable investment interest in accordance with the terms of the transfer.

Same

(2) Without limiting subsection (1), a transfer that by its terms is intended to constitute a sale or absolute transfer shall be treated for all purposes as an absolute transfer of an investment asset owner's right, title and interest in, to and under an investment interest, and not merely as a security interest, and upon such absolute transfer the transferor shall retain no right, title or interest in the investment interest, subject to the transfer, including all rights to the investment interest arising after the transfer.

Deemed perfection, etc.

(3) At the time a transfer of an investment interest is made, the transfer shall be deemed to have been and shall be perfected, vested, valid and binding as against the transferor and all other persons who have claims of any kind against the transferor.

Priority of transfer, assignment, etc.

(4) Subsection (3) applies regardless of whether the persons who have claims have received notice of the transfer and the property rights and interests acquired by the investment asset owner shall have priority over any liens in favour of such other persons.

Investment asset owner may grant security interest

28xx. (1) An investment asset owner may grant a security interest over all or a specified portion of its right, title and interest in, to and under the investment interest to or in favour of any person to secure a funding obligation.

Validity

(2) A security interest granted under this Act shall be valid and enforceable in accordance with its terms.

Perfection and priority of security interests

(3) All provisions of the *Personal Property Security Act* shall apply to the investment asset and each investment interest on the basis that it is intangible personal property, except as otherwise provided for in this section, and any granting of a security interest by the owner of an investment interest to secure a funding obligation shall, subject to the terms of the funding obligation, give rise to a security interest in respect of which that Act applies and may be perfected by filing a financing statement under that Act on that basis.

Proceeds

(4) All proceeds of an investment interest that are subject to the security interest and that are received by the applicable investment asset owner shall immediately be subject to the security interest and shall be perfected without any physical delivery of the proceeds, registration of any financing statement or any further act.

Perfection

(5) The security interest shall be a continuously perfected security interest and shall have priority over any other lien, created by operation of law or otherwise, that may subsequently attach to the property rights and interests in the investment interest subject to the security interest, subject to the written consent of the person to whom the security interest has been granted.

Same

(6) The person to whom the security interest has been granted shall have a perfected security interest in revenues or other proceeds that are deposited in any [investment asset account] or other account of any electricity vendor, the IESO, an agent of an electricity vendor or the IESO or other person who may have commingled such revenues or other proceeds with other funds.

PART VI MISCELLANEOUS

Appointment of agent, invoicing or collection

29xx. If a prescribed circumstance applies, the Lieutenant Governor in Council may by regulation appoint a person to carry out some or all of the obligations of an electricity vendor under this Act in the place of an electricity vendor with respect to invoicing or collection.

Not Crown agent

30xx. For greater certainty, no agent appointed under this Act is an agent of the Crown for any purpose, despite the *Crown Agency Act*.

Sequestration

31xx. (1) A court in the Province may, upon application by an investment asset owner or a secured party, order the sequestration and payment of the clean energy adjustment, collections and remittances, as applicable, for the benefit of the investment asset owner or secured party by any person or entity authorized to collect the clean energy adjustment, defaults on any required remittance of the clean energy adjustment, collections or remittances.

Same

(2) An order under subsection (1) does not limit any other remedies available to the applicant.

Same

(3) An order under subsection (1) shall remain in full force and effect despite any bankruptcy, reorganization or other insolvency proceedings with respect to the person or entity who is subject to the order.

Choice of law

32xx. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to the transfer of an interest or right or creation of a security interest in the regulatory asset, the investment asset, the clean energy adjustment or the undertaking of the Crown under section x shall be the laws of the Province.

Conflict

33xx. The provisions of this Act and the regulations apply despite any provision of any other Act regarding the attachment, assignment or perfection, or the effect of perfection or priority of any transfer or security interest.

No further approvals, etc.

34xx. Despite any requirement under any Act, no approvals, notices or authorizations other than those specified in this Act are required with respect to the actions to be taken in compliance with this Act, including actions to be taken under the Financing Plan or in relation to the establishment of the Fair Allocation Plan.

Immunity

35xx. (1) No action or other proceeding for damages shall be instituted against any employee of the Province, IESO, OPG or OEB for any act done in good faith in the execution or intended execution of any duty or authority under this Act or for any alleged neglect or default in the execution in good faith of any duty or authority under this Act.

Same

(2) Despite subsections 5 (2) and (4) of the *Proceedings Against the Crown Act*, subsection (1) does not relieve the Crown of liability in respect of a tort committed by a person mentioned in subsection (1) to which it would otherwise be subject.

References in marketing materials and offering documents

36xx. No person shall include, in marketing materials or offering documents relating to the financing of funding obligations, references to any rights, obligations, guarantees or undertakings arising under this section unless the prescribed requirements, if any, are satisfied.

Non-application, Financial Administration Act, s. 28⁷

37xx. Section 28 of the *Financial Administration Act* does not apply with respect to any transaction or agreement or undertaking required, permitted, contemplated or authorized, directly or indirectly, under this Act.

Regulations

38xx. The Lieutenant Governor in Council may make regulations,

- (a) defining any term used in this Act....
- (b) prescribing types of payment obligations that constitute funding obligations;
- (a) governing the calculation [true-up amount] and how the amount is to be applied to the clean energy adjustment.
- (b) governing the inclusion of adjustments under this Act on invoices, which may include requiring notice to be provided by electricity vendors to specified persons regarding the adjustments.

⁷ Note - see s. 51 of the Electricity Act, 1998

[Note: reg-making powers to be dealt with in subsequent draft]

PART VII AMENDMENTS TO OTHER ACTS

ELECTRICITY ACT, 1998

200x. (1) Subsection 6 (1) of the *Electricity Act, 1998* would be amended by adding the following clauses:

- (q.0.1) to exercise the powers and rights and to perform the duties and obligations assigned to it under the *Ontario Fair Hydro Plan Act, 2017* and to engage in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including,
 - (i) entering into agreements or arrangements with any person for the purposes of the *Ontario Fair Hydro Plan Act, 2017*;
 - (ii) engaging in activities related to making payments to and receiving payments as contemplated under the *Ontario Fair Hydro Plan Act, 2017* and to engage in related settlement activities;
 - (iii) engaging in activities related to the creation, transfer and administration of the regulatory asset created under the *Ontario Fair Hydro Plan Act, 2017*, which activities may include,
 - (iv) incurring liabilities in relation to the regulatory asset
 - (v) transferring the regulatory asset for consideration;
 - (vi) acting as a recovery agent under the *Ontario Fair Hydro Plan Act, 2017*;

201x. Section 53.1 of the Act would be amended by adding the following subsections:

Same, *Ontario Fair Hydro Plan Act, 2017*

53.1 (1.1) In addition to the objects mentioned in subsection (1), the objects of Ontario Power Generation Inc. include exercising the powers and rights and performing the duties and obligations assigned to it under that Act and engaging in activities to facilitate the implementation of the *Ontario Fair Hydro Plan Act, 2017*, including the following:

1. Entering into contracts and undertakings on behalf of special purpose financing entities, including pre-formation contracts and undertakings and as principal in relation to matters permitted by the *Ontario Fair Hydro Plan Act, 2017* subject to the right of reimbursement from amounts available to the financing entity.
2. Preparing reports on behalf of the financing entity.
3. Enforcing the rights of the financing entity.
4. Signing offering documents as sponsor or otherwise on behalf of the financing entity.
5. Exercising the powers and performing the duties of the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*
6. Issuing non-equity securities in Ontario Power Generation Inc. or on if its subsidiaries, for the purpose of raising funds to acquire debt or equity interests in a financing entity whose activities are limited to the incurrence of funding obligations pursuant to the *Ontario Fair Hydro Plan Act, 2017*.

Subsidiaries, etc.

(1.2) Ontario Power Generation Inc. may create one or more subsidiaries, trusts or special purpose entities in order to more efficiently conduct its activities or achieve its objects.

202x. Section 89 of the Act would be amended by adding the following subsection:

Exception

(4) The requirement in subsection (1) to pay an amount to the Financial Corporation does not apply in respect of amounts payable to Ontario Power Generation Inc. or a subsidiary of Ontario Power Generation Inc. as a result of its functions as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

203x. Section 90 of the Act would be amended by adding the following subsection:

Exception

(4) The requirement in subsection (1) to pay an amount to the Financial Corporation does not apply in respect of amounts payable to Ontario Power Generation Inc. or a subsidiary of Ontario Power Generation Inc. as a result of its functions as the Financial Services Manager under the *Ontario Fair Hydro Plan Act, 2017*.

[Note: Drafting still to be added to the EA consequential amendments: ***All fees charged by OPG as the FSM shall be approved by the OEB before they are included in the calculation of clean energy adjustments.***]

AMENDMENTS TO ONTARIO ENERGY BOARD ACT, 1998

204x. Subsection 1 (1) of the *Ontario Energy Board Act, 1998* would be amended by adding the following paragraph:

6. To facilitate the implementation of the [TBD - language should link up with language from new Act.]

205x. Section 70 of the Act would be amended by adding the following subsection

[Note - still need to draft new subs. 70 (2.1)]

Short Title - this proposal for legislation would, if approved by the Legislature, have a short title to be determined by Government.

Timing – this proposal for legislation would, if approved by the Legislature, come into force on a date to be established by Government.

SCHEDULE 1
ESTIMATED FINANCE AMOUNT

Estimated finance amount

1. The estimated finance amount for a reference period shall be determined by estimating, prior to the start of a reference period, the sum of the following:

1. The sum of all amounts that are payable during the reference period by or on behalf of the investment asset owners to satisfy an obligation to repay, redeem or repurchase, or to provide for the repayment, redemption or repurchase, of all or a portion of the amount advanced to the owners under a funding obligation, excluding any payment made by applying the proceeds of a refinancing.
2. The sum of all funding costs for the reference period, determined as follows:
 - i. Calculate the aggregate of all interest, scheduled principal and other periodic finance charges accruing, due and becoming payable or paid by or on behalf of investment assets owners during the reference period in respect of all funding obligations, including such amounts as may be prescribed.
 - ii. Calculate the sum of the aggregate of all amounts received by or on behalf of investment asset owners during the reference period in respect of all funding obligations and such other amounts as may be prescribed.
 - iii. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1.
3. The sum of all amounts payable during the reference period by or on behalf of investment asset owners to redeem, prepay or repurchase a funding obligation, including any premium, make-whole or other amount becoming payable under a funding obligation to give effect to the redemption, prepayment or repurchase.
4. The balance of the finance reserve at the end of the reference period, as determined under section 3 to this Schedule.
5. The sum of any other amounts payable during the reference period by or on behalf of investment asset owners that were incurred or committed to directly or indirectly in connection with the incurrence of funding obligations under the Financing Plan during the reference period, which may include such amounts as may be prescribed.

Funding costs

2. For the purposes of paragraph 2 of section 1 to this Schedule, the funding costs for a reference period are determined by taking the following steps:

Finance reserve balance

3. (1) For the purposes of paragraph 4 of section 1 to this Schedule, the balance of the finance reserve at the end of the reference period is determined by taking the following steps:

1. Calculate the sum of all amounts deposited by or on behalf of investment asset owners during the reference period in order to pre-fund, collateralize, over-collateralize or establish reserves for the ultimate payment of funding obligations or for related contingencies specified in the Financing Plan.
2. Calculate the sum of all amounts withdrawn by or on behalf of investment asset owners during the reference period from deposits previously made as described in paragraph 1.
3. Subtract the amount calculated under paragraph 2 from the amount calculated under paragraph 1.

There are two types of “guarantees” that we are looking for from the Province in relation to this program on the basis that any debt issued under the Fair Hydro Program will be AAA-rated. The following is based on the understanding that charges collected from prescribed consumers will be subject to a moratorium during the first 5 years of the program which results in interest and other on-going expenses of the financing entity not being recovered from ratepayers during this initial 5 year period.

The legislation must include a specific reference to the Province being required to provide a guarantee on debt repayment and servicing in certain circumstances.

The first is a “Springing Guarantee”, which would be via a legal agreement put in place when establishing the program and would require the Province to step in and assume responsibility for paying all amounts that are or become due in respect of (i) any of the outstanding funding obligations; (ii) the operation and maintenance of the financing entity; and (iii) any other amounts due in relation to the program that have not yet been paid (collectively, the “Fair Hydro Program Costs”). This Springing Guarantee would kick in should any of the following happen:

(1) There is any change in the legislation or regulations that is, or could be, adverse to finance entity noteholders or the legislation is determined to be *ultra vires*. In this situation, the Springing Guarantee would require the immediate repayment of all Fair Hydro Program Costs (including any makewhole prepayment obligations).

(2) There is a market disruption (i.e. there is a period of time when capital markets term funding is not available to take out the warehouse facilities (bank facility or ABCP)). In this situation, either (i) we must have the ability to recover amounts relating to principal recoveries by invoicing and collecting clean energy adjustments, regardless of whether this is during the first 5 or 10 years of the program; or (ii) the Province must be responsible for the immediate repayment of those warehouse facilities. In respect of clause (2)(i), those clean energy adjustments could either be passed on to the ratepayers, or be funded by an incremental IESO shortfall or servicer advance (which in turn, could be funded by the Province).

The period of time that must lapse before this Springing Guarantee becomes applicable with respect to the warehouse facilities can be set to accommodate a short term dislocation in the term funding market (6-18 months). We would note that depending on the size of the warehouse facility, if there is no term takeout for an extended period of time, it is likely that the warehouse facilities will also quickly reach their credit limits and the province would likely have to fund any future shortfalls if they wished to continue the program.

To the extent that the Springing Guarantee does not require the Province to make the repayment contemplated under scenario (1), but simply requires the Province to repay the debt in accordance with its original repayment terms, this may adversely impact the rating of the Fair Hydro Program.

The second type of guarantee we are looking for from the Province is a performance guarantee. This is not a credit guarantee. The performance guarantee would require the Province to stand behind certain of the servicing obligations in the program. Typically, if there is a situation where a servicer does not perform all of the duties themselves, but delegates some of their activities to a sub-servicer or agent, the servicer would retain responsibility for duties performed by those

Commented [A1]: The May 3 FPC deck states that IESO will need to finance the interest and expenses related to the GA deferral for the first 4 years. I would think this means that investors will still be made whole as IESO will be covering those interest costs/expenses.

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delegates. Our understanding is that IESO will only be acting as agent in this transaction, so this standard will not be in place with respect to IESO or the LDC's. To address this risk, we would be looking for a **performance guarantee to be included as part of the documents for the program which would cover any of the servicing and collection activities, regardless of whether those were performed by IESO, as initial servicer, a replacement servicer or an LDC.** The performance guarantee would, amongst other things, require the Province to stand behind (including taking responsibility for helping remedy any breaches in) the representations, warranties and covenants made by the servicer and the servicer's or LDCs' obligations to collect and remit clean energy adjustments. **It would also require the Province to ensure that the servicer and, if applicable, LDC, performs their servicing activities as set out in the securitization documents and if they do not, put in place an alternative servicer who would perform those servicing activities.** Subject to confirmation with the rating agencies, the performance guarantee should also address commingling risk during each month. Typically, as long as the performance guarantor maintains an acceptable rating (at or slightly above investment grade), cash collections should be permitted to be commingled each month until remitted to the Financing Entity with the Province taking responsibility for the commingling risk (i.e. the Province would be required to remit if there were amounts collected and commingled, but not received by the Financing Entity). Our understanding is that the LDCs will be performing certain servicing and collection activities which we would describe in the legal agreements, but we are not expecting the LDCs be parties to the agreements themselves. The performance guarantee would need to cover activities performed by the LDCs, as well as the servicer, including any cash collected but not remitted to the Financing Entity. **The performance guarantee would also include the Province standing behind any other potential liabilities arising from the performance of such servicing obligations by the parties involved in servicing these investment assets on behalf of the Financing Entity.**

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delegates. Our understanding is that IESO will only be acting as agent in this transaction, so this standard will not be in place with respect to IESO or the LDC's. To address this risk, we would be looking for a performance guarantee to be included as part of the documents for the program which would cover any of the servicing and collection activities, regardless of whether those were performed by IESO, as initial servicer, a replacement servicer or an LDC. The performance guarantee would, amongst other things, require the Province to stand behind (including taking responsibility for helping remedy any breaches in) the representations, warranties and covenants made by the servicer and the servicer's or LDCs' obligations to collect and remit clean energy adjustments. It would also require the Province to ensure that the servicer and, if applicable, LDC, performs their servicing activities as set out in the securitization documents and if they do not, put in place an alternative servicer who would perform those servicing activities. Subject to confirmation with the rating agencies, the performance guarantee should also address commingling risk during each month. Typically, as long as the performance guarantor maintains an acceptable rating (at or slightly above investment grade), cash collections should be permitted to be commingled each month until remitted to the Financing Entity with the Province taking responsibility for the commingling risk (i.e. the Province would be required to remit if there were amounts collected and commingled, but not received by the Financing Entity). Our understanding is that the LDCs will be performing certain servicing and collection activities which we would describe in the legal agreements, but we are not expecting the LDCs be parties to the agreements themselves. The performance guarantee would need to cover activities performed by the LDCs, as well as the servicer, including any cash collected but not remitted to the Financing Entity. The performance guarantee would also include the Province standing behind any other potential liabilities arising from the performance of such servicing obligations by the parties involved in servicing these investment assets on behalf of the Financing Entity.

ASSEMBLY BILL #A8073 SAME AS SENATE BILL #S5844

LAWS OF NEW YORK, 2013

CHAPTER 173

AN ACT to amend the public service law, the public authorities law, the executive law and the education law, in relation to the powers and duties of the department of public service and the Long Island power authority; to repeal subdivision (u) of section 1020-f of the public authorities law relating to general powers of the authority; and providing for the repeal of certain provisions upon expiration thereof (Part A); and in relation to the issuance of securitized restructuring bonds to refinance the outstanding debt of the Long Island power authority (Part B)

Became a law July 29, 2013, with the approval of the Governor.
Passed by a majority vote, three-fifths being present.

The People of the State of New York, represented in Senate and Assembly,
do enact as follows:

Section 1. This act enacts into law major components of legislation relating to issues deemed necessary by the state. Each component is wholly contained within a Part identified as Parts A through B. The effective date for each particular provision contained within such Part is set forth in the last section of such Part. Any provision in any section contained within a Part, including the effective date of the Part, which makes reference to a section "of this act", when used in connection with a particular component, shall be deemed to mean and refer to the corresponding section of the Part in which it is found.

Section three of this act sets forth the general effective date of this act.

PART A

Section 1. Section 3 of the public service law, as amended by chapter 8 of the laws of 2012, is amended and a new section 3-b is added to read as follows:

§ 3. Department of public service. [~~1.~~] There shall be in the state government a department of public service. The chairman of the public service commission shall be the chief executive officer of the department. He or she shall appoint and shall have the power to remove, subject to the provisions of the civil service law, all officers, clerks, inspectors, experts and employees of the department, and to approve all contracts for special service. The chairman shall designate one of the commissioners in the department or an officer of the department to act as deputy chairman during the absence or disability of the chairman and during such times such deputy chairman shall possess all the powers of the chairman as chief executive officer of the department.

~~[2. The department shall, upon notification to the Long Island power authority, undertake a comprehensive and regular management and operations audit of said authority pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law. The department shall have discretion to have such an audit performed by its staff, or~~

EXPLANATION--Matter in *italics* is new; matter in brackets [-] is old law

to be omitted.

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~~by an independent contractor. In every case in which an audit is required pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law performed by an independent auditor, the department shall have the authority to select the auditor, and to require the Long Island power authority to enter into a contract with the auditor that is consistent with the contracting-related requirements specified in subdivision nineteen of section sixty-six of this chapter and the requirements of subdivision (bb) of section one thousand twenty-f of the public authorities law. Such contract shall provide further that the auditor shall work for and under the direction of the department according to such terms as the department may determine are necessary and reasonable.]~~

§ 3-b. Long Island office of the department.

1. There is hereby established in the department an office to review and make recommendations with respect to the operations and terms and conditions of service of, and rates and budgets established by, the Long Island power authority and/or its service provider.

2. Definitions. As used or referred to in this section:

(a) "Authority" means the Long Island power authority.

(b) "Service provider" means the entity under contract with the authority to provide management and operation services associated with the authority's electric transmission and distribution system and any subsidiary of such entity that provides such services under contract. However, the service provider and any affiliate of the service provider with whom the authority or service provider contracts to provide services associated with the authority's electric transmission and distribution system shall not be considered an electric corporation under this chapter.

(c) "Operations services agreement" means an agreement and any amendments thereto between the Long Island lighting company dba LIPA or the Long Island power authority and the service provider to provide management and operation services associated with the authority's electric transmission and distribution system.

3. General powers. In undertaking the requirements of this section, subject to subdivisions (u) and (bb) through (hh) of section one thousand twenty-f of the public authorities law, the department shall be empowered and authorized to:

(a) Review and make recommendations to the board of the Long Island power authority with respect to the rates and charges, including charges related to energy efficiency and renewable energy programs, to be established by the authority and become applicable on or after January first, two thousand sixteen pursuant to subdivision (u) of section one thousand twenty-f of the public authorities law.

(i) The purpose of such review is to make recommendations designed to ensure that the authority and the service provider provide safe and adequate transmission and distribution service at rates set at the lowest level consistent with sound fiscal operating practices.

(ii) The department's recommendations shall be designed to be consistent with ensuring that the revenue requirements related to such rate review are sufficient to satisfy the authority's obligations with respect to its bonds, notes and all other contracts.

(iii) In the context of such review, the department may not make any recommendation that would modify the compensation or fee structure included within the operations services agreement.

(iv) In undertaking such review and in making recommendations related to the proposed rates and charges, the department shall establish standards,

policies and procedures that, at a minimum, provide for public statement and evidentiary hearings and participation of intervenors and other parties, and ensure that any final recommendations related to the proposed rates and charges are provided to the authority within two hundred forty days of the filing with the department of such plan.

(v) The parties to any such rate review proceeding shall include, but not be limited to, department staff, the authority, the service provider and, to the extent it deems necessary or appropriate, the utility intervention unit.

(b) Review the annual capital expenditures proposed by the service provider and recommend such improvement in the manufacture, conveying, transportation, distribution or supply of electricity, or in the methods employed by the service provider as in the department's judgment allows for safe and adequate service.

(c) Annually review the emergency response plan of the authority and the service provider in accordance with the following requirements:

(i) Examine and determine whether the emergency response plan is consistent with the requirements of paragraph (a) of subdivision twenty-one of section sixty-six of this chapter and any regulations or orders promulgated thereto, and to recommend amendments of same; and

(ii) Review and make recommendations to the authority with respect to the performance of the service provider in restoring service or otherwise meeting the requirements of the emergency response plan during an emergency event, defined for purposes of this section as an event where widespread outages have occurred in the authority's service territory due to a storm or other causes beyond the control of the authority and its service provider, including making determinations with respect to whether the service provider is reasonably able to implement the emergency response plan, whether the length of any outages related to such emergency were materially longer than they would otherwise have been because the service provider failed to reasonably implement the emergency response plan, the reasonableness of costs associated with such emergency response, the costs, if any, that were unreasonably and imprudently incurred by the service provider, and whether the service provider would be liable for any such costs pursuant to the terms and conditions of the operations services agreement.

(d) Upon notification to the Long Island power authority, undertake a comprehensive and regular management and operations audit of the authority and service provider pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law. The department shall have discretion to have such an audit performed by its staff, or by an independent contractor. In every case in which an audit is required pursuant to subdivision (bb) of section one thousand twenty-f of the public authorities law performed by an independent auditor, the department shall have the authority to select the auditor, and to require the authority to enter into a contract with the auditor that is consistent with the contracting-related requirements specified in subdivision nineteen of section sixty-six of this chapter and the requirements of subdivision (bb) of section one thousand twenty-f of the public authorities law. Such contract shall provide further that the auditor shall work for and under the direction of the department

according to such terms as the department may determine are necessary and reasonable.

(e) Accept, investigate, mediate to resolve and make recommendations to the Long Island power authority and/or the service provider regarding the resolution of complaints from consumers in the authority's service

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territory relating to, among other things, the provision of electric service provided by the service provider and/or the authority.

(f) Review the net metering program implemented under subdivision (h) of section one thousand twenty-g of the public authorities law and make recommendations designed to ensure consistency with the requirements of sections sixty-six-j and sixty-six-l of this chapter, and any regulations and orders adopted thereto.

(g) Review and make recommendations with respect to any proposed plan submitted by the Long Island power authority and/or the service provider related to implementation of energy efficiency measures, distributed generation or advanced grid technology programs having the purpose of providing customers with tools to more efficiently and effectively manage their energy usage and utility bills, and improving system reliability and power quality.

(h) Review the data, information and reports submitted pursuant to subdivision (hh) of section one thousand twenty-f of the public authorities law and other pertinent information related to the metrics in the operations services agreement, the Long Island power authority's evaluation of such data, information and reports, and make recommendations to the authority with respect to the service provider's annual incentive based compensation within thirty days of receipt of such evaluation and information.

4. Review and inspection. To undertake the requirements of subdivision two of this section, the department shall be authorized to inspect all premises and facilities owned or operated by the authority and the service provider, review all books and records of the authority and the service provider, interview all appropriate personnel, and require annual reporting consistent with the requirements of subdivision six of section sixty-six of this chapter and any regulations and orders adopted thereto; provided, however, that this authority shall not extend to affiliates of the service provider.

§ 2. Subdivision 2 and paragraph (b) of subdivision 6 of section 18-a of the public service law, subdivision 2 as amended by section 2 of part NN of chapter 59 of the laws of 2009 and paragraph (b) of subdivision 6 as amended by section 1 of part BB of chapter 59 of the laws of 2013, are amended and a new subdivision 1-a is added to read as follows:

1-a. All costs and expenses of the department related to the department's responsibilities under section three-b of this chapter shall be paid pursuant to appropriation on the certification of the chairman of the department and upon the audit and warrant of the comptroller. For the state fiscal year beginning on April first, two thousand fourteen and each state fiscal year thereafter, payments are to be made from all moneys collected from the Long Island power authority pursuant to this section. The total of such costs and expenses shall be assessed on such authority in the manner provided in subdivisions two, three and four of this section.

2. (a) The chairman of the department shall estimate prior to the start of each state fiscal year the total costs and expenses, including the compensation and expenses of the commission and the department, their officers, agents and employees, and including the cost of retirement contributions, social security, health and dental insurance, survivor's benefits, workers' compensation, unemployment insurance and other fringe

benefits required to be paid by the state for the personnel of the commission and the department, and including all other items of maintenance and operation expenses, and all other direct and indirect costs. Based on such estimates, the chairman shall determine the amount

to be paid by each assessed public utility company and the Long Island power authority and a bill shall be rendered to each such public utility company and authority.

(b) The bill for each public utility company and the Long Island power authority shall be rendered on or before February first preceding each fiscal year, and shall be for the amount equal to the product of the aforesaid estimated costs and expenses of conducting the department's and commission's total operations during the fiscal year for which billing is being made multiplied by the proportion which compares:

(1) the gross operating revenues, over and above five hundred thousand dollars, for that utility company or the authority derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman, to:

(2) the total of the gross operating revenues, derived from intrastate utility operations for all utility companies and the authority in the state which revenues are included under subparagraph one of this paragraph.

For the purposes of calculating the commodity cost component of its gross operating revenue, where the utility delivers to end-use customers electricity and/or natural gas commodities that are sold to such customers by a third party, such utility shall include in its revenues an estimate of the sales revenue for the electric and/or natural gas commodities that it delivers, including all such commodities sold to end-use customers by third parties, in such manner as to assure that all end-use delivery customers, regardless of the entity from which they purchase their electric and/or natural gas commodities, bear a fair and proportionate share of the assessment imposed herein, as the commission may determine.

(c) The minimum assessment for any utility company, as well as the Long Island power authority, whose gross revenues from intrastate utility operations are in excess of five hundred thousand dollars in the preceding calendar year shall be two hundred dollars.

(d) The amount of such bill for fiscal years beginning on or after April first, nineteen hundred eighty-three so rendered shall be paid by such public utility company and such authority to the department on or before April first; provided, however, that [a] any such utility company or such authority may elect to make partial payments for such costs and expenses on March tenth of the preceding fiscal year and on September tenth of such fiscal year. Each such partial payment shall be a sum equal to fifty percentum of the estimate of costs and expenses to be assessed against such utility company or authority under the provisions of this subdivision and shall not be less than two hundred dollars.

(e) During the course of any state fiscal year, the chairman may increase or decrease the estimate of costs and expenses. In such case, revised bills shall be sent to each public utility company and such authority, and such increase or decrease shall be equally apportioned against the remaining payments for such fiscal year.

(f) On or before October tenth of each year, the chairman shall compute the actual costs and expenses of the department and the commission and adjustments or other corrections as needed for the preceding state fiscal year and, after deducting the amounts recovered pursuant to subdivisions three and four of this section, shall, on or before October twentieth, send to each public utility company and/or the authority affected thereby a

statement setting forth the amount due and payable by, or the amount standing to the credit of, such public utility company and/or the authority. Any amount owing by any public utility company

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and/or the authority shall be paid not later than thirty days following the date such statement is received. Any such amount standing to the credit of any public utility company shall be refunded by the commission or, at the option of such utility company, shall be applied as a credit against any succeeding payment due.

(g) The total amount which may be charged to any public utility company and the Long Island power authority under authority of this subdivision for any state fiscal year shall not exceed one per centum of such public utility company's or authority's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman; provided, however, that no corporation or person that is subject to the jurisdiction of the commission only with respect to safety, or the power authority of the state of New York, shall be subject to the general assessment provided for under this subdivision.

Notwithstanding the provisions of subdivision one of this section, for telephone corporations as defined in subdivision seventeen of section two of this article, the total amount which may be charged such corporations for department expenses under the authority of subdivision one of this section for any state fiscal year shall not exceed one-third of one percentum of such corporation's gross operating revenue, over and above five hundred thousand dollars, derived from intrastate utility operations in the last preceding calendar year, or other twelve month period as determined by the chairman.

(h) On-bill recovery charges billed pursuant to section sixty-six-m of this chapter shall be excluded from any determination of an entity's gross operating revenues derived from intrastate utility operations for purposes of this section.

(b) The temporary state energy and utility service conservation assessment shall be based upon the following percentum of the utility entity's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, minus the amount, if any, that such utility entity is assessed pursuant to subdivisions one and two of this section for the corresponding state fiscal year period: (1) two percentum for the state fiscal year beginning April first, two thousand thirteen and the state fiscal year beginning April first, two thousand fourteen; (2) one and three-quarters percentum for the state fiscal year beginning April first, two thousand fifteen; and (3) one and one-half percentum for the state fiscal year beginning April first, two thousand sixteen. With respect to the temporary state energy and utility service conservation assessment to be paid for the state fiscal year beginning April first, two thousand seventeen and notwithstanding clause (i) of paragraph (d) of this subdivision, on or before March tenth, two thousand seventeen, utility entities shall make a payment equal to one-half of the assessment paid by such entities pursuant to this paragraph for the state fiscal year beginning on April first, two thousand sixteen. With respect to the Long Island power authority, the temporary state energy and utility service conservation assessment shall be based upon the following percentum of such authority's gross operating revenues derived from intrastate utility operations in the last preceding calendar year, minus the amount, if any, that such authority is assessed pursuant to subdivisions one-a and two of this section for the corresponding state fiscal year period: (1) one percentum for the state fiscal year beginning April first,

two thousand thirteen and the state fiscal year beginning April first, two thousand fourteen; (2) three- quarters of one percentum for the state fiscal year beginning April

first, two thousand fifteen; and (3) one-half percentum for the state fiscal year beginning April first, two thousand sixteen; provided, however, that should the amount assessed by the department for costs and expenses pursuant to such subdivisions equal or exceed such authority's temporary state energy and utility service conservation assessment for a particular fiscal year, the amount to be paid under this subdivision by such authority shall be zero.

With respect to the temporary state energy and utility service conservation assessment to be paid for the state fiscal year beginning April first, two thousand seventeen and notwithstanding clause (i) of paragraph (d) of this subdivision, on or before March tenth, two thousand seventeen, the Long Island power authority shall make a payment equal to one-half of the assessment it paid for the state fiscal year beginning on April first, two thousand sixteen. No corporation or person subject to the jurisdiction of the commission only with respect to safety, or the power authority of the state of New York, shall be subject to the temporary state energy and utility service conservation assessment provided for under this subdivision. Utility entities whose gross operating revenues from intrastate utility operations are five hundred thousand dollars or less in the preceding calendar year shall not be subject to the temporary state energy and utility service conservation assessment. The minimum temporary state energy and utility service conservation assessment to be billed to any utility entity whose gross revenues from intrastate utility operations are in excess of five hundred thousand dollars in the preceding calendar year shall be two hundred dollars.

§ 3. Section 1020-b of the public authorities law is amended by adding two new subdivisions 23 and 24 to read as follows:

23. "Service provider" means the entity under contract with the authority to provide management and operation services associated with the authority's electric transmission and distribution system and any subsidiary of such entity that provides such services under contract.

24. "Operations services agreement" means an agreement and any amendments thereto between the Long Island lighting company dba LIPA or the authority and the service provider to provide management and operation services associated with the authority's electric transmission and distribution system.

§ 4. Section 1020-d of the public authorities law, as added by chapter 506 of the laws of 1995, is amended to read as follows:

§ 1020-d. [~~Trustees~~] Board of trustees.

1. [~~The~~] Starting on January first, two thousand fourteen, the board of the authority shall be constituted and consist of [~~fifteen~~] nine trustees all of whom shall be residents of the service area, [~~nine~~] five of whom shall be appointed by the governor, one of whom the governor shall designate as [~~chairman~~] chair, and serve at his or her pleasure, [~~three~~] two of whom shall be appointed by the temporary president of the senate, and [~~three~~] two of whom shall be appointed by the speaker of the assembly. [~~Two~~] One of the governor's appointees shall serve an initial term of [~~one-year~~] two years; [~~two~~] one of the governor's appointees shall serve an initial term of [~~two~~] three years; [~~two~~] and three of the governor's appointees shall serve an initial term of [~~three~~] four years[~~; and three of the governor's appointees shall serve an initial term of four years~~]. [~~Two~~] One of the appointees of the temporary president of the senate and [~~two~~] one of the appointees of the speaker of the assembly shall serve initial terms of [~~one-year~~] two years;

and one appointee of the temporary president of the senate and one appointee of the speaker of the assembly shall serve initial terms of [~~two~~] three years. Thereafter, all terms

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shall be for a period of four years. In the event of a vacancy occurring in the office of trustee by death, resignation or otherwise, the respective appointing officer shall appoint a successor who shall hold office for the unexpired portion of the term.

2. No trustee shall receive a salary, but each shall be entitled to reimbursement for reasonable expenses in the performance of duties assigned hereunder.

3. Notwithstanding the provisions of any other law, no trustee, officer or employee of the state, any state agency or municipality appointed a trustee shall be deemed to have forfeited or shall forfeit his or her office or employment by reason of his or her acceptance of a trusteeship on the authority, his or her service thereon or his or her employment therewith.

4. All trustees appointed under this section shall have relevant utility, corporate board or financial experience.

§ 5. On or before December 1, 2013 the governor, the temporary president of the senate and the speaker of the assembly shall choose and announce their appointments to the board of the Long Island power authority to be made pursuant to section 1020-d of the public authorities law, as amended by section four of this act, giving due consideration to continuity of business. The board of trustees of the Long Island power authority in existence on December 31, 2013, shall be abolished on such date and be constituted on January 1, 2014 pursuant to section 1020-d of the public authorities law, as amended by section four of this act.

§ 6. Subdivision (u) of section 1020-f of the public authorities law is REPEALED.

§ 7. Subdivisions (c) and (bb) of section 1020-f of the public authorities law, subdivision (c) as amended by chapter 506 of the laws of 2009 and subdivision (bb) as added by chapter 8 of the laws of 2012, are amended and seven new subdivisions (u), (cc), (dd), (ee), (ff), (gg) and (hh) are added to read as follows:

(c) To appoint officers, agents and employees, without regard to any personnel or civil service law, rule or regulation of the state and in accordance with guidelines adopted by the authority, prescribe their duties and qualifications and fix and pay their compensation [~~, provided, however, that the appointment of the chief executive officer shall be subject to confirmation by the senate in accordance with section twenty-eight hundred fifty-two of this chapter;~~]. By January first, two thousand fourteen, the authority, through its governance committee, shall amend such guidelines to require that staffing at the authority is kept at levels only necessary to ensure that the authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and oversee the activities of the service provider;

(u) Rate plans. Subject to subdivision six of section one thousand twenty-k of this title to fix rates and charges for the furnishing or rendition of gas or electric power or of any related service at the lowest level consistent with sound fiscal and operating practices of the authority and which provide for safe and adequate service. In implementing this power:

1. The authority and the service provider shall, on or before February first, two thousand fifteen, submit for review to the department of public service a three-year rate proposal for rates and charges to take effect on or after January first, two thousand sixteen.

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2. The authority and the service provider shall thereafter submit for review to the department of public service any rate proposal that would increase the rates and charges and thus increase the aggregate revenues of the authority by more than two and one-half percent to be measured on an annual basis; provided, however, that the authority may place such rates and charges into effect on an interim basis, subject to prospective rate adjustment; provided, further, that a final rate plan issued by the authority that would not so increase such rates and charges shall not be subject to the requirements of paragraph four of this subdivision and shall be considered final for the purposes of review under article seventy-eight of the civil practice law and rules. The authority and/or the service provider may otherwise submit for review to such department any rate proposal irrespective of its effect on revenues.

3. The authority shall not fix any final rates and charges proposed that would not be subject to review by the department of public service pursuant to paragraphs one and two of this subdivision until after holding public hearings thereon upon reasonable public notice, with at least one such hearing to be held each in the county of Suffolk and the county of Nassau.

4. Any recommendations associated with a rate proposal submitted pursuant to paragraphs one and two of this subdivision shall be provided by the department of public service to the board of the authority immediately upon their finalization by the department. Unless the board of the authority makes a preliminary determination in its discretion that any particular recommendation is inconsistent with the authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service, the board shall implement such recommendations as part of its final rate plan and such final determination shall be deemed to satisfy the requirements of this subdivision and be considered final for the purposes of review under article seventy-eight of the civil practice law and rules. The board shall make any such preliminary determination of inconsistency within thirty days of receipt of such recommendations, with notice and the basis of such determination being provided to the department of public service, and contemporaneously posted on the websites of the authority and its service provider. The board shall thereafter, within thirty days of such posting and with due advance notice to the public, hold a public hearing with respect to its preliminary determination of inconsistency.

At such hearing, the department of public service shall present the basis for its recommendations, the board shall present the basis for its determination of inconsistency and the service provider may present its position. The authority and the service provider may, during the time period before such public hearing reach agreement with the department on disputed issues. Within thirty days after such public hearing, the board of the authority shall announce its final determination and planned implementation with respect to any such recommendations. The authority's final determination of inconsistency shall be subject to any applicable judicial review proceeding, including review available under article seventy-eight of the civil practice law and rules.

(bb) Comprehensive and regular management and operations audits.

1. The authority and the service provider shall cooperate in the undertaking and completion of a regular and comprehensive management and operations audit conducted pursuant to the requirements of this subdivision and ~~[subdivision two of section three]~~ paragraph (d) of subdivision three of section three-b of the public service law. Such audit shall review and evaluate the ~~[authority's]~~ overall operations and management

of the authority and service provider, including ~~[the authority's]~~ such operations and management in the context of ~~[its]~~ the authority's duty to set rates at the lowest level consistent with standards and procedures provided in subdivision (u) of this section, and include, but not be limited to: (i) the ~~[authority's]~~ service provider's construction and capital program planning in relation to the needs of ~~[its]~~ customers for reliable service; (ii) the overall efficiency of the authority's and service provider's operations; (iii) the manner in which the authority is meeting its debt service obligations; (iv) the authority's Fuel and Purchased Power Cost Adjustment clause and recovery of costs associated with such clause; (v) the authority's and service provider's annual budgeting procedures and process; (vi) the application, if any, of the performance metrics designated in the operations services agreement and the accuracy of the data relied upon with respect to such application; and ~~[(vi)]~~ (vii) the authority's compliance with debt covenants.

2. The department of public service shall notify the authority that said department is in the process of initiating a comprehensive management and operations audit as described in paragraph one of this subdivision in a manner that ensures the timeliness of such audit, and in accordance with the following timeframe: the first comprehensive management and operations audit shall be initiated as of the effective date of ~~[this subdivision]~~ chapter eight of the laws of two thousand twelve and undertaken in a manner and to an extent that is practicable in the context of the authority's transition to a new management service structure; the second comprehensive management and operations audit shall be initiated no later than December fifteenth, two thousand ~~[fifteen]~~ sixteen; and all additional comprehensive management and operations audits shall be initiated at least once every five years thereafter.

Within a reasonable time after such notification to the authority, said department or the independent auditor retained by the authority to undertake such audit shall hold public statement hearings, with proper notice, in both Nassau and Suffolk counties for the purpose of receiving both oral and written comments from the public on matters related to such audit as described in paragraph one of this subdivision.

3. Each such audit shall be completed within eighteen months of initiation absent an extension for good cause shown by the department of public service or the independent auditor under contract with the authority with notice of such extension to the governor, the temporary president of the senate, the speaker of the assembly, and the chairs of the authority and the department of public service. Such audit shall be provided to the board of the authority immediately upon its completion.

The department of public service shall provide notice of completion of such audit to the governor, the temporary president of the senate, the speaker of the assembly, and the minority leaders of the senate and assembly, and the authority, upon receipt of such audit, shall post a copy of such audit, including findings and recommendations, on its website and the website of the service provider. Unless the board of the authority makes a preliminary determination that any particular finding or recommendation contained in such audit is inconsistent with the authority's sound fiscal operating practices, any existing contractual or operating obligation, or the provision for safe and adequate service, the board shall implement or cause its service provider to implement such findings and recommendations in accordance with the timeframe specified under such audit.

4. The board of the authority shall make any preliminary determination of inconsistency with respect to any such finding or recommendation

within thirty days of receipt of the audit, with notice and the basis of such determination being provided to the department of public service.

Such notice and basis shall be posted contemporaneously on the authority's website and the website of the service provider and the board shall, within thirty days of such posting and with due advance notice to the public, hold a public hearing with respect to its preliminary determination of inconsistency. At such hearing the department of public service or the independent auditor responsible for undertaking such audit shall present the basis for its findings and recommendations and the board shall present the basis for its determination of inconsistency and the service provider may present its position. The authority, service provider and auditor may during the time period prior to such public hearing reach agreement on disputed issues. Within thirty days after such public hearing, the board of the authority shall announce its final determination and planned implementations with respect to any such findings and/or recommendations. The ~~[board's]~~ authority's final determination of inconsistency shall be subject to any applicable judicial review proceeding, including review available under article seventy-eight of the civil practice law and rules.

(cc) To prepare an emergency response plan pursuant to this subdivision.

1. The service provider shall, in consultation with the authority, prepare and maintain an emergency response plan (i) to assure the reasonably prompt restoration of service in the case of an emergency event, defined for purposes of this subdivision as an event where wide-spread outages have occurred in the authority's service territory due to a storm or other causes beyond the control of the authority and the service provider, (ii) consistent with the requirements of paragraph (a) of subdivision twenty-one of section sixty-six of the public service law and any regulations and orders adopted thereto, and (iii) establishing the separate responsibilities of the authority and service provider.

2. On or before February third, two thousand fourteen, the authority and service provider shall submit an emergency response plan to the department of public service for review. Contemporaneously with such submission, the authority shall provide notice of such proposed plan to the secretary of state for publication in the state register, the authority and service provider each shall post such plan on their websites and otherwise make such plan available for review in-person, and afford members of the public an opportunity to submit written comments and oral comments pursuant to at least one hearing to be held each in the county of Suffolk and the county of Nassau. Such written comments must be submitted by March fourteenth, two thousand fourteen.

The authority and service provider shall provide a copy of all written comments they receive and a transcript of such public hearings to the department of public service for its consideration in reviewing the emergency response plan. The department shall provide any recommendations to the authority and service provider with respect to such plan on or before April fifteenth, two thousand fourteen. Such plan must be made final by June second, two thousand fourteen. For each year thereafter, the service provider shall submit an emergency response plan to the department of public service, and such department shall provide its recommendations, in accordance with a schedule to be established by such department and that is consistent with the schedule associated with such department's review of similar such plans provided by electric corporations pursuant to subdivision twenty-one of section sixty-six of the public service law.

3. By June second, two thousand fourteen, and by June first annually thereafter, the authority and service provider shall jointly certify to the department of homeland security and emergency services that the emergency response plan ensures, to the greatest extent feasible, the timely and safe restoration of energy services after an emergency consistent with the requirements of paragraph (a) of subdivision twenty-one of the public service law and the department's recommendations. The filing of such emergency response plan shall also include a copy of all written mutual assistance agreements among utilities. The authority and service provider shall file with the county executives of Nassau and Suffolk county and the mayor of the city of New York the most recent version of the emergency response plan, and make sure that such amended versions are timely filed.

4. Starting in calendar year two thousand fourteen, the service provider annually shall undertake at least one drill to implement procedures to practice its emergency response plan. The service provider shall notify and allow participation in such drill of all appropriate municipal emergency responders and officials.

5. If, during an emergency event, electric service is not restored in three days, the service provider shall within sixty days from the date of full restoration file with the department a report constituting a review of all aspects of the preparation and system restoration performance during the event, and shall thereafter take into consideration any recommendations made by the department associated with such review.

(dd) On or before January first, two thousand fifteen, and by January first of each calendar year thereafter, to submit for review to the department of public service a report detailing the service provider's planned capital expenditures.

(ee) On or before July first, two thousand fourteen, and annually thereafter, to submit for review to the department of public service any proposed plan related to implementing energy efficiency measures, distributed generation or advanced grid technology programs for the purpose provided pursuant to paragraph (g) of subdivision three of section three-b of the public service law.

(ff) To assist and cooperate with the department of public service with respect to any review undertaken pursuant to section three-b of the public service law, including providing the department with reasonable access to all facilities and premises owned or operated by the authority or its service provider, allowing review of all books and records of the authority and its service provider, providing copies of requested documents, allowing interviews of all appropriate personnel, and responding in a reasonable and timely manner to any inquiries or reporting requests made by the department; provided, however, that the obligations set forth in this subdivision shall not extend to affiliates of the service provider.

(gg) Renewable generation and energy efficiency programs. 1. The authority in coordination with the service provider, the power authority of the state of New York and the New York state energy research and development authority shall, to the extent the authority's rates are sufficient to provide safe and adequate transmission and distribution service, and the measures herein, undertake actions to design and administer renewable energy and energy efficiency measures in the service area, with the goal of continuing and expanding such measures that cost-effectively reduce system-wide peak demand, minimize long-term fuel price risk to rate payers, lower emissions, improve environmental quality, and seek to meet New York state climate change and environmental

goals. Such actions shall also include implementation of any renewable energy competitive procurement or feed-in-tariff programs that were approved by the authority as of the effective date of the chapter of the laws of two thousand thirteen which added this subdivision.

2. The service provider shall consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans.

(hh) Starting in calendar year two thousand fifteen, the authority and the service provider shall submit to the department of public service for review, any and all data, information and reports which set forth the service provider's actual performance related to the metrics in the operations services agreement, including the authority's evaluation thereof, no less than forty-five days prior to the authority's determination of the service provider's annual incentive compensation.

§ 8. Section 1020-q of the public authorities law, as added by chapter 517 of the laws of 1986 and subdivision 2 as amended by section 19 of part Y of chapter 63 of the laws of 2000, is amended to read as follows:

§ 1020-q. Payments in lieu of taxes. 1. Each year after property theretofore owned by LILCO is acquired by the authority by any means authorized by this title and, as a consequence, is removed from the tax rolls, the authority shall make payments in lieu of taxes to municipalities and school districts equal to the taxes and assessments which would have been received from year to year by each such jurisdiction if such acquisition had not occurred, ~~[except for such taxing jurisdictions which tax the Shoreham plant, in which case the in lieu of tax payments shall in the first year after the acquisition be equal to one hundred percent of the taxes and assessments which would have been received by such taxing jurisdictions. In each succeeding year such in lieu of tax payments shall be decreased by ten percent until such time as such payments equal taxes and assessments which would have been levied on such plant in a nonoperative state]~~ provided, however, that for the calendar year starting on January first, two thousand fifteen, and for each calendar year thereafter, such payments in lieu of taxes shall not exceed the in lieu of tax payments made to such municipalities and school districts in the immediately preceding year by more than two percent.

2. The authority shall also make payments in lieu of taxes for those taxes which would otherwise be imposed ~~[upon LILCO, if LILCO were to continue in operation,]~~ pursuant to sections one hundred eighty-six-a and one hundred eighty-six-c of the tax law, and to former ~~[sections one hundred eighty-six and]~~ section one hundred eighty-six-b of the tax law as such ~~[sections one hundred eighty-six and one hundred eighty-six b were]~~ section was in effect on December thirty-first, nineteen hundred ninety-nine, ~~[paragraph (b) of subdivision four of section one hundred seventy-four of the navigation law,]~~ and any taxes imposed by a city pursuant to the authorization granted by section twenty-b of the general city law.

3. No municipality or governmental subdivision, including a school district or special district, shall be liable to the authority or any other entity for a refund of property taxes originally assessed against the Shoreham plant. Any judicial determination that the Shoreham plant assessment was excessive, unequal or unlawful for any of the years from nineteen hundred seventy-six to the effective date of this title shall not result in a refund by any taxing jurisdiction of taxes previously paid by LILCO pursuant to such Shoreham plant assessment. The authority shall discontinue and abandon all proceedings, brought by its predecessor

in interest, which seek the repayment of all or part of the taxes assessed against the Shoreham plant.

§ 9. Subdivision 1 of section 1020-s of the public authorities law, as amended by chapter 388 of the laws of 2011, is amended to read as follows:

1. The rates, services and practices relating to the electricity generated by facilities owned or operated by the authority shall not be subject to the provisions of the public service law or to regulation by, or the jurisdiction of, the public service commission, except to the extent (a) article seven of the public service law applies to the siting and operation of a major utility transmission facility as defined there-in, (b) article ten of such law applies to the siting of a generating facility as defined therein, ~~[and]~~ (c) section eighteen-a of such law provides for assessment for certain costs, property or operations, and (d) to the extent that the department of public service reviews and makes recommendations with respect to the operations and provision of services of, and rates and budgets established by, the authority pursuant to section three-b of such law.

§ 10. Section 1020-w of the public authorities law, as added by chapter 517 of the laws of 1986, is amended to read as follows:

§ 1020-w. Audit and annual reports. The accounts of the authority shall be subject to the supervision of the state comptroller and an annual audit shall be performed by an independent certified accountant selected by the ~~[state division of the budget]~~ authority, upon recommendation of its finance and audit committee. The authority shall submit annually to the governor, the state comptroller, the temporary president of the senate, the speaker of the assembly and the county executives and governing bodies of the counties of Suffolk and Nassau, a detailed report pursuant to the provisions of section two thousand eight hundred of ~~[title one of article nine of]~~ this chapter, which report shall be verified by the chairman of the authority. The authority shall comply with the provisions of sections two thousand eight hundred one, two thousand eight hundred two and two thousand eight hundred three of ~~[title one of article nine of]~~ this chapter.

§ 11. Section 1020-cc of the public authorities law, as amended by chapter 413 of the laws of 2011, is amended to read as follows:

§ 1020-cc. Authority subject to certain provisions contained in the state finance law, the public service law, the social services law and the general municipal law.

1. All contracts of the authority shall be subject to the provisions of the state finance law relating to contracts made by the state. The authority shall also establish rules and regulations with respect to providing to its residential gas, electric and steam utility customers those rights and protections provided in article two and sections one hundred seventeen and one hundred eighteen of the public service law and section one hundred thirty-one-s of the social services law. The authority shall conform to any safety standards regarding manual lockable disconnect switches for solar electric generating equipment established by the public service commission pursuant to subparagraph (ii) of paragraph (a) of subdivision five and subparagraph (ii) of paragraph (a) of subdivision five-a of section sixty-six-j of the public service law. The authority shall let contracts for construction or purchase of supplies, materials, or equipment pursuant to section one hundred three and paragraph (e) of subdivision four of section one hundred twenty-w of the general municipal law.

2. The authority and service provider shall provide to the state comptroller on March thirty-first and September thirtieth of each year a

report documenting each contract in excess of two hundred fifty thousand dollars per year entered into with a third party and related to management

and operation services associated with the authority's electric transmission and distribution system, including the name of the third party, the contract term and a description of services or goods to be procured, and post such report on each of their websites. All contracts entered into between the service provider and third parties are not subject to the requirements of subdivision one of this section.

§ 12. Paragraph (b) of subdivision 4 of section 94-a of the executive law, as amended by chapter 8 of the laws of 2012, is amended to read as follows:

- (b) The utility intervention unit shall have the power and duty to:
- (i) on behalf of the secretary, initiate, intervene in, or participate in any proceedings before the public service commission or the department of public service, to the extent authorized by sections three-b, twenty-four-a, seventy-one, eighty-four or ninety-six of the public service law or any other applicable provision of law, where he or she deems such initiation, intervention or participation to be necessary or appropriate;
 - (ii) represent the interests of consumers of the state before federal, state and local administrative and regulatory agencies engaged in the regulation of energy services; ~~and~~
 - (iii) accept and investigate complaints of any kind from Long Island power authority consumers, attempt to mediate such complaints where appropriate directly with such authority and refer complaints to the appropriate state or local agency authorized by law to take action with respect to such complaints~~[-]; and~~
 - (iv) hold regular forums in each of the service territories of the combination gas and electric corporations, as defined under section two of the public service law, and the Long Island power authority to educate consumers about utility-related matters and the regulatory process, opportunities to lower energy costs, including through energy efficiency and distributed generation, and other matters affecting consumers.

§ 13. Notwithstanding section 112 of the state finance law and notwithstanding any other provision of law to the contrary, including but not limited to any provision of law related to rebidding, letting or amending contracts of any amount, the Long Island Lighting Company dba LIPA is authorized to amend the operations services agreement, dated December 28, 2011, entered into with PSEG Long Island LLC, including Amendment Nos. 1 and 2 thereto, approved on June 27, 2012, solely by the following: (1) upon review and written recommendations made by the department of public service to the board of trustees of the Long Island power authority ("authority"), setting forth the reasons for and findings underlying such recommendations; and (2) adoption of a resolution by a majority of the authority's board of trustees.

§ 14. This act shall supersede the fifth project condition established in Resolution No. 97-LI-1 of the public authorities control board, dated July 16, 1997, related to the implementation of certain rate increases.

§ 15. Subdivision l of section 7208 of the education law, as amended by chapter 994 of the laws of 1971, is amended to read as follows:

l. The practice of engineering or land surveying, or using the title "engineer" or "surveyor" (i) exclusively as an officer or employee of a public service corporation by rendering to such corporation such services in connection with its lines and property which are subject to supervision with respect to the safety and security thereof by the

public service commission of this state, the interstate commerce commission or other federal regulatory body and so long as such person is thus actually and exclusively employed and no longer, or (ii) exclusively as an officer or

employee of the Long Island power authority or its service provider, as defined under section three-b of the public service law, by rendering to such authority or provider such services in connection with its lines and property which are located in such authority's service area and so long as such person is thus actually and exclusively employed and no longer;

§ 16. Repowering. If after the Long Island power authority, or its successor, determines, in accordance with the terms and conditions contained in the amended and restated power supply agreement ("A&R PSA"), dated October 10, 2012, between the authority and the owner of the legacy LILCO power generating facilities, that repowering any such generating facility is in the best interests of its ratepayers and will enhance the authority's ability to provide a more efficient, reliable and economical supply of electric energy in its service territory, consistent with the goal of improving environmental quality, the authority will exercise its rights under the A&R PSA related to repowering such facility, and shall enter into an agreement related to payments in lieu-of-taxes for a term commensurate with any power purchase agreement entered into related to such repowered facility, consistent with other such agreements related to generating facilities under contract to the authority in the service territory.

§ 17. This act shall take effect January 1, 2014; provided, however, that section twelve of this act shall take effect April 1, 2014, sections five, ten, eleven, thirteen, fourteen, fifteen and sixteen of this act shall take effect immediately; provided further that section thirteen of this act shall expire and be deemed repealed January 1, 2015; and provided further that the amendments to subdivision 6 of section 18-a of the public service law made by section two of this act shall not affect the repeal of such subdivision and shall be deemed repealed therewith.

PART B

Section 1. Legislative findings. The legislature hereby finds and determines:

1. On May 28, 1998, Long Island Power Authority (the authority) acquired all the capital stock and associated assets, including transmission and distribution (T&D) system assets of Long Island Lighting Company (LILCO) which does business as the retail electric utility on Long Island, New York under the name of LIPA. In connection with that acquisition, the authority took over ultimate responsibility for providing electric utility service to residential, commercial, industrial, nonprofit and governmental customers in the counties of Suffolk and Nassau and a portion of the county of Queens (hereinafter referred to as the "service area"). Such acquisition effectively converted LILCO from an investor-owned utility that was comprehensively regulated by the New York Public Service Commission (PSC) and the United States Federal Energy Regulatory Commission (FERC), to a municipal utility that is not comprehensively regulated either by the PSC or FERC.

2. Since May 28, 1998, neither the authority nor LIPA has directly operated or maintained the T&D system assets, provided electric service or billed and collected T&D rates from LIPA's customers; instead, the authority and LIPA have contracted out virtually all of these activities

to other companies. Most of these operations and service responsibilities have been contracted out to affiliates of a company now known as National Grid plc (National Grid), a multi-national electric and gas utility company organized under the laws of England and Wales pursuant to a management services agreement. Thus, while the LIPA name appears on customer bills as well as on service trucks and other equipment used in the service area,

affiliates of National Grid have been principally in charge of management and operation of the T&D system assets and providing electricity to consumers in the service area. The authority and LIPA have now contracted with affiliates of Public Service Enterprise Group and Lockheed Martin Services Inc. (PSEG-Lockheed) to provide operation and maintenance services for the T&D system assets for ten years starting January 1, 2014, when the National Grid contract expires.

3. High costs of electric utility service poses a serious threat to the economic well-being, health and safety of the residents of and the commerce and industry in the service area. High costs of electric utility service deter commerce and industry from locating in the service area and have caused existing commerce and industry to consider seriously moving out of the service area.

4. High debt and associated debt service contribute to the authority's high electric rates. The authority has approximately seven billion dollars in outstanding debt, a substantial portion of which was issued to refinance debt associated with construction of the now abandoned Shoreham nuclear power plant. The annual debt service associated with such bonds puts pressure on the authority's customer rates.

5. As of December 31, 2012, the three major rating agencies generally rated the authority's debt in the single-A range, though Moody's Investors Services assigns approximately seven hundred million dollars of the authority's debt slightly lower ratings of Baa1 and Baa2.

6. If securitized restructuring bonds were issued by a bankruptcy-remote entity with a AAA or equivalent rating in current market conditions to finance a portion of the costs of purchasing, redeeming or defeasing outstanding debt of the authority, and other associated costs, the debt service on the authority's debt could be reduced and the costs of electric utility service could be lowered.

7. Securitized restructuring bonds are likely to be most attractive to the investing public and result in the lowest possible yields if they are issued by a newly organized, special purpose public benefit corporation or other corporate municipal instrumentality of the state.

8. The purpose of this act is to provide a legislative foundation for the issuance of securitized restructuring bonds to refinance outstanding debt of the authority, a significant portion of which relates to LILCO's costs of constructing and financing the now abandoned Shoreham nuclear power plant, including the creation of restructuring property by the authority to provide for the redemption or defeasance of a portion of the outstanding debt of the authority. It is the intent of the legislature to authorize, for the purpose of reducing electric utility costs to consumers in the service area, the following: (a) the organization of a restructuring bond issuer as a special purpose corporate municipal instrumentality of the state, created for the limited purpose of issuing securitized restructuring bonds to purchase restructuring property to finance the cost of purchasing, redeeming or defeasing a portion of the outstanding debt of the authority and associated costs, which securitized restructuring bonds create no new financial obligations or liabilities for the authority or for the state; and (b) implementation of contracts with owners of the securitized restructuring bonds through a

statutory pledge and agreement that the state will not in any way take or permit any action to revoke, modify, impair, postpone, terminate or amend this act in any manner that is materially adverse to the owners of the restructuring bonds until those bonds are no longer outstanding and all

amounts due and owing under the related transaction documents have been paid in full.

9. Accordingly, the issuance of securitized restructuring bonds is expected to result in lower aggregate distribution and transmission charges and transition charges, compared to other available alternatives.

§ 2. Definitions. As used or referred to in this act, unless a differing meaning clearly appears from the context:

1. "Ancillary agreement" means any bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement or other similar agreement or arrangement entered into in connection with the issuance of restructuring bonds that is designed to promote the credit quality and marketability of such restructuring bonds or to mitigate the risk of an increase in interest rates.

2. "Approved restructuring costs" means, to the extent approved as such under a restructuring cost financing order,

(a) costs of purchasing, redeeming or defeasing a portion of outstanding debt of the authority, including bonds and notes issued by the authority, debt issued by the New York state energy research and development authority for the benefit of the LILCO;

(b) costs of terminating interest rate swap contracts and other financial contracts entered into by or for the benefit of the authority and related to debt obligations of the authority;

(c) rebate, yield reduction payments and any other amounts payable to the United States Treasury or to the Internal Revenue Service to preserve or protect the federal tax-exempt status of outstanding debt obligations of the authority; and (d) upfront financing costs associated with restructuring bonds.

3. "Assignee" means any individual, corporation, limited liability company, partnership or limited partnership, trust or other legally-recognized entity to which an interest in restructuring property is assigned, sold or transferred, other than as security, including any assignee of that party.

4. "Authority" means Long Island Power Authority, a corporate municipal instrumentality and political subdivision of the state.

5. "Consumer" means any individual, governmental body, trust, business entity, nonprofit organization or other legally-recognized entity that takes electric delivery service within the service area by means of electric transmission or distribution facilities, whether those electric transmission or distribution facilities are owned by LIPA or any other entity.

6. "Financing cost" means the costs to issue, service, or repay restructuring bonds, whether incurred upon issuance of such restructuring bonds or over the life of the restructuring bonds, and approved for recovery in a restructuring cost financing order. Without limitation, "financing cost" may include, as applicable, any of the following:

(a) principal, interest and redemption premiums payable on restructuring bonds;

(b) any payment required under an ancillary agreement and any amount required to fund or replenish a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to the restructuring bonds;

(c) any federal, state or local taxes, payments in lieu of taxes, franchise fees or license fees imposed on transition charge revenues; and

(d) any cost related to issuing restructuring bonds, administering the restructuring bond issuer and servicing restructuring property and

restructuring bonds, or related to the efforts to prepare or obtain approval of a restructuring cost financing order, including, without limitation, costs of calculating adjustments of transition charges, servicing fees and expenses, trustee fees and expenses, legal fees and expenses, accounting fees and expenses, administrative fees and expenses, placement fees, underwriting fees, fees and expenses of the authority's advisors and outside counsel, if any, rating agency fees and any other related cost that is approved for recovery in the restructuring cost financing order.

7. "Financing entity" means the restructuring bond issuer, the authority or any servicer, trustee, collateral agent, and other person or entity acting for the benefit of owners of the restructuring bonds, the restructuring bond issuer or the authority that may own restructuring property or have rights to receive proceeds of restructuring bonds or to receive proceeds from the sale of restructuring property.

8. "LIPA" means Long Island Lighting Company, currently doing business under the name of LIPA.

9. "Ongoing financing costs" means financing costs that are not upfront financing costs. Ongoing financing costs include: (a) principal, interest and redemption premiums payable on restructuring bonds; (b) any payment required under an ancillary agreement and any amount required to replenish a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to restructuring bonds; (c) any federal, state or local taxes, payments in lieu of taxes, franchise fees or license fees imposed on transition charge revenues; and (d) any cost related to administering the restructuring bond issuer and servicing restructuring property or restructuring bonds, including, without limitation, costs of calculating adjustments of transition charges, servicing fees and expenses, administrative fees and expenses, trustee fees and expenses, and legal fees and expenses, accounting fees and expenses, and rating agency fees, approved for recovery in the restructuring cost financing order. Ongoing financing costs shall include any excess of actual upfront financing costs over the estimate of upfront financing costs included in the principal amount of the restructuring bonds.

10. "Restructuring bond issuer" means the corporate municipal instrumentality of the state created under section four of this act.

11. "Restructuring bonds" means bonds or other evidences of indebtedness that are issued pursuant to an indenture or other agreement of the restructuring bond issuer under a restructuring cost financing order

(a) the proceeds of which are used, directly or indirectly, to recover, finance, or refinance approved restructuring costs, (b) that are directly or indirectly secured by, or payable from, restructuring property, and (c) that have a term no longer than thirty years.

12. "Restructuring cost financing order" means an order by the authority, adopted in accordance with this act, which approves the imposition and collection of transition charges, and the financing of approved restructuring costs and upfront financing costs through the sale of restructuring property and the issuance of restructuring bonds, and which includes a procedure to require periodic adjustments to transition charges to ensure the collection of transition charges sufficient to

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provide for the timely payment of scheduled debt service on the restructuring bonds and all other ongoing financing costs contemplated by the restructuring cost financing order.

13. "Restructuring property" means the property rights and interests created pursuant to this act, including, without limitation, the right, title, and interest: (a) in and to the transition charges established

pursuant to a restructuring cost financing order, as adjusted from time to time in accordance with the restructuring cost financing order; (b) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the transition charges or constituting transition charges that are the subject of a restructuring cost financing order, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected or maintained together with or commingled with other revenues, collections, claims, payments, money or proceeds; and (c) in and to all rights to obtain adjustments to the transition charges pursuant to the terms of the restructuring cost financing order. Restructuring property shall constitute a vested, presently existing property right notwithstanding the fact that the value of the property right will depend on further acts that have not yet occurred, including but not limited to, consumers remaining or becoming connected to the T&D system assets and taking electric delivery service, the imposition and billing of transition charges, or, in those instances where consumers are customers of LIPA or any successor owner of the T&D system assets, such owner performing certain services.

14. "Service area" means the geographical area within which LIPA provided electric distribution services as of the implementation date of this act.

15. "Servicer" means an entity authorized and required, by contract or otherwise, to impose, bill and collect transition charges, to prepare periodic reports regarding billings and collections of transition charges, to remit collections to the appropriate financing entity, and to provide other services contemplated by the restructuring cost financing order, which may include calculation of periodic adjustments to the transition charges or providing other services related to the restructuring property. Without limitation, LIPA or any successor owner of the T&D system assets, their agents or subcontractors, or any entity authorized to bill and collect T&D rates may be a servicer.

16. "Servicing fee" means, except to the extent otherwise specified in a restructuring cost financing order, the periodic amount paid pursuant to a servicing agreement, indenture or other such document to a servicer of restructuring property which amount shall approximate the estimated incremental cost of imposing, billing and collecting transition charges, preparing servicing reports and performing other customary servicing services required in connection with securitized bonds. A restructuring cost financing order may authorize a smaller fee payable to a successor servicer that is affiliated with a successor owner of the T&D system assets if the incremental cost of providing servicing services is less than LIPA's incremental costs. A restructuring cost financing order may authorize a larger fee payable to a successor servicer that is not affiliated with the owner of the T&D system assets or is not performing similar services with respect to the base rates of the owner of the T&D system assets if such larger fee is reasonably necessary to employ a reliable successor servicer.

17. "Successor regulator" means a regulatory department, commission or other instrumentality or subdivision of the state with jurisdiction to

regulate the T&D rates of LIPA or its successor as owner of the T&D system assets.

18. "Third-party biller" means any person or entity authorized, required or entitled to bill or collect transition charges or T&D rates other than the authority, LIPA or a successor owner of the T&D system assets, or a servicer.

19. "T&D rates" means rates and charges for electric transmission and distribution services in the service area. "T&D rates" shall not include charges for the generation or resale of electricity or any charges imposed to fund public purpose programs.

20. "T&D system assets" means the physically integrated system of electric transmission and distribution facilities (and other general property and equipment used in connection therewith) owned by LIPA as of the effective date of this act or thereafter acquired for use by LIPA or its successors in providing retail electric utility service to consumers in the service area.

21. "Transition charges" means those rates and charges relating to the T&D system assets that are separate and apart from base rates of LIPA or any successor owner of the T&D system assets and that are authorized in a restructuring cost financing order to recover from consumers the principal, interest and premium payable on restructuring bonds and the other ongoing financing costs associated with the restructuring bonds. As provided in paragraph (c) of subdivision 5 of section five of this act,

transition charges shall be imposed on all consumers in the service area and collected by LIPA or any successor owner of the T&D system assets, their agents, subcontractors, assignees, collection agents or any other entity designated under the restructuring cost financing order.

22. "Upfront financing costs" means the fees and expenses to issue restructuring bonds, including, without limitation, expenses associated with the efforts to prepare or obtain approval of a restructuring cost financing order, as well as the fees and expenses associated with the structuring, marketing, and issuance of restructuring bonds, including, without limitation, counsel fees, structural advisory fees, underwriting fees and original issue discount, rating agency and trustee fees (including fees of trustee's counsel), accounting and auditing fees, printing and marketing expenses, stock exchange listing fees and compliance fees, filing fees, any applicable taxes, payments in lieu of taxes, the amount required to fund a debt service reserve account or other account established under any indenture, ancillary agreement or other financing document relating to the restructuring bonds, and fees and expenses of the authority's advisors and outside counsel, if any. Upfront financing costs include reimbursement to any person of amounts advanced for payment of such costs. Upfront financing costs do not include scheduled debt service or other ongoing financing costs, to the extent such ongoing financing costs are payable from transition charge revenues. If any upfront financing costs cannot be reasonably determined before the principal amount of restructuring bonds is fixed, such financing costs shall be estimated and the aggregate of such estimates shall be included as an upfront financing cost for purposes of determining the principal amount of restructuring bonds to be issued. If the actual upfront financing costs are greater than the estimated upfront financing costs, the difference shall be deemed to be an ongoing financing cost; if the actual upfront financing costs are less than the estimated upfront financing costs, the proceeds corresponding to such difference shall be used to pay ongoing financing costs.

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§ 3. Procedure; judicial review. 1. Standard. The authority may prepare a restructuring cost financing order for the purpose of issuing restructuring bonds to refinance outstanding debt of the authority based on a finding that such bond issuance is expected to result in savings to consumers of electric transmission and distribution services in the service area on a net present value basis.

2. Public hearings. Notwithstanding any other provision of law to the

contrary, at any time after the effective date of this act, after making such finding, the authority shall schedule and hold one or more expedited public statement hearings on the proposed restructuring cost financing order. After the conclusion of such hearings and its review of any comments received, the authority shall finalize the restructuring cost financing order for submission to the board of trustees of the authority and to the public authorities control board ("PACB"). The PACB shall have the power and it shall be its duty to, upon receiving an application for approval of a restructuring cost financing order, within thirty days after receipt of such order, either approve, absent any conditions of approval, or disapprove such order based solely on the assumptions and conditions set forth in the restructuring cost financing order and whether such order complies with the standards set forth in this act. If the public authorities control board fails to approve or disapprove such restructuring cost financing order within such thirty day period, the PACB shall be deemed to have approved the restructuring cost financing order. If the board of trustees of the authority approves such restructuring cost financing order and the PACB approves or is deemed to have approved such restructuring cost financing order, the restructuring cost financing order shall become a final rate order by the authority.

3. Appeals. Because delay in the final determination of the petition will delay the issuance of restructuring bonds, thereby diminishing savings to consumers that might be achieved if the restructuring bonds were issued promptly after the issuance of the restructuring cost financing order, notwithstanding any other law to the contrary, any action, suit or proceeding to which the authority or the restructuring bond issuer may be a party, in which any question arises as to the validity of this act or any restructuring cost financing order, shall be preferred over all other civil causes in all courts of the state, except election matters, and shall be heard and determined in preference to all other civil business pending therein, except election matters, irrespective of position on the calendar. Such preference shall also be granted upon application of counsel to the authority in any action or proceeding questioning the validity of this act or any restructuring cost financing order in which such counsel may be allowed to intervene. Notwithstanding any other provision of law to the contrary, the validity of this act may only be challenged by an aggrieved party pursuant to an action, suit or proceeding filed within thirty days of the effective date of this act, and the validity of any restructuring cost financing order may only be challenged by an aggrieved party pursuant to an action, suit or proceeding filed within thirty days after such restructuring cost financing order becomes a final rate order by the authority; provided, however, that any such action, suit or proceeding and all supporting papers shall be filed directly to the Supreme Court, Appellate Division, Second Judicial Department.

4. Expiration of appeals. The authority shall provide written notification to the restructuring bond issuer upon the authority's determination that any and all actions, suits and proceedings challenging this

act and the final restructuring cost financing order have been denied or dismissed or the timing associated with the filing of such actions, suits and proceedings has lapsed or expired, and any related appeals have been exhausted or the timing related to such appeals has lapsed or expired.

5. Agreement to sell restructuring bonds. Within the time specified in

the restructuring cost financing order, after receiving notice from the authority that the time for petitions and appeals has lapsed or expired, the restructuring bond issuer shall enter into an agreement with one or more underwriters or purchasers satisfactory to the authority to sell the restructuring bonds in compliance with the restructuring cost financing order. No later than the third business day after the pricing of the restructuring bonds in accordance with such agreement, the initial servicer shall determine the initial transition charges and the expected savings to consumers in accordance with the restructuring cost financing order and shall file an issuance advice letter with the authority and the restructuring bond issuer setting forth the principal amount of restructuring bonds to be issued, the pricing, the net proceeds, the initial transition charges, the expected savings to consumers and any other information required by the restructuring cost financing order. No later than the end of the third business day after the filing of such issuance advice letter, the authority shall confirm in a notice to the restructuring bond issuer that such pricing complies with the restructuring cost financing order.

6. Issuance of restructuring bonds. Within ninety days after receiving notice of confirmation from the authority, the restructuring bond issuer shall issue the restructuring bonds, in one or more series or tranches and at one or more times, pursuant to the agreement to sell the restructuring bonds. The restructuring bond issuer shall purchase the restructuring property from the authority for a purchase price equal to the net proceeds from the sale of the restructuring bonds less any amounts of such proceeds required to fund or pay upfront financing costs.

7. Irrevocability. Upon the issuance of the restructuring bonds, the transition charges, including any adjustments thereof as provided in the restructuring cost financing order, shall be deemed established by the authority as irrevocable, final and effective without further action by the authority, or any other entity. The state, including the authority or any successor regulator, thereafter may not in any way take or permit any action to reduce, impair, postpone or terminate the transition charges approved in the restructuring cost financing order, as the same may be adjusted from time to time pursuant to subdivision 3 of section five of this act, or impair the restructuring property or the collection or recovery of transition charge revenues, including, but not limited to, either directly or indirectly by taking transition charges into account when setting other rates for any owner of the T&D system assets; nor shall the amount of revenues arising with respect to restructuring property be subject in any way to reduction, impairment, postponement, or termination.

8. Application of proceeds. The restructuring bond issuer shall cause the proceeds from its issuance of the restructuring bonds to be placed in one or more separate accounts and used only to pay or fund upfront financing costs and to purchase the restructuring property from the authority. The authority shall cause the proceeds from its sale of restructuring property to be placed in one or more separate accounts and used only to pay approved restructuring costs, and if funds remain in those accounts after the payment of all approved restructuring costs, to

make a refund or credit to consumers on the same basis that transition charges are then being imposed, to the extent such a refund or credit is practical.

§ 4. Creation of restructuring bond issuer. 1. Creation of restructuring bond issuer. For the purpose of effectuating the purposes

declared in section one of this act, there is hereby created a special purpose corporate municipal instrumentality of the state to be known as "utility debt securitization authority", which shall be a body corporate and politic, a political subdivision of the state, and a public benefit corporation, exercising essential governmental and public powers for the good of the public. The restructuring bond issuer shall not be created or organized, and its operations shall not be conducted, for the purpose of making a profit. No part of the revenues or assets of the restructuring bond issuer shall inure to the benefit of or be distributable to its trustees or officers or any other private persons, except as herein provided for actual services rendered.

2. Activities limited to issuing restructuring bonds and related activities.

(a) The restructuring bond issuer is hereby authorized to:

(i) issue the restructuring bonds contemplated by a restructuring cost financing order, and use the proceeds thereof to purchase or acquire, and to own, hold and use restructuring property or to pay or fund upfront financing costs provided, however, that the restructuring bond issuer shall only issue and sell restructuring bonds once;

(ii) contract for servicing of restructuring property and restructuring bonds and for administrative services; and

(iii) pledge the restructuring property to secure the restructuring bonds and the payment of ongoing financing costs, all pursuant to section seven of this act.

(b) So long as any restructuring bonds remain outstanding, the restructuring bond issuer shall not be authorized to merge or consolidate, directly or indirectly, with any person or entity. Additionally, the restructuring bond issuer shall not have the power or authority to incur, guarantee or otherwise become obligated to pay any debt or other obligations other than the restructuring bonds and financing costs unless otherwise permitted by the restructuring cost financing order. The restructuring bond issuer shall keep its assets and liabilities separate and distinct from those of any other entity.

(c) The restructuring bond issuer shall have no additional authority to engage in other business activities; provided, however, that in connection with the powers specified in paragraph (a) of subdivision 2 of this section, as a financing entity, the restructuring bond issuer shall have the power to:

(i) sue and be sued;

(ii) have a seal and alter the same at pleasure;

(iii) make and alter by-laws for its organization and internal management and make rules and regulations governing the use of its property;

(iv) make and execute contracts and all other instruments necessary or convenient for the exercise of its powers and functions under this act and to commence any action to protect or enforce any right conferred upon it by any law, contract or other agreement, including, without limitation, make and execute contracts with the authority, LIPA or any successor owner of the T&D system assets, any servicers, any financing entity or any other public or private entities to service restructuring property owned by restructuring bond issuer, to service restructuring bonds issued by restructuring bond issuer, and to provide services in

administering the restructuring bond issuer, and to pay compensation for such services;

(v) appoint officers, agents and employees, prescribe their duties and qualifications, fix their compensation and engage the services of

private consultants, accountants, counsel and others on a contract basis for rendering professional and technical assistance and advice;

(vi) pay its operating expenses, scheduled debt service on the restructuring bonds and other ongoing financing costs;

(vii) issue restructuring bonds and provide for the rights of the holders thereof;

(viii) procure insurance against any loss in connection with its activities, properties and assets in such amount and from such insurers as it deems desirable;

(ix) invest any funds or other moneys under its custody and control in investment securities or under any ancillary agreement;

(x) establish and maintain such reserves, special funds and accounts, to be held in trust or otherwise, as may be required by agreements made in connection with the restructuring bonds, or any agreement between itself and third parties;

(xi) as security for the payment of the principal of and interest on any restructuring bonds issued by it pursuant to this act, and any agreement made in connection therewith, pledge all or any part of its revenues or assets, including, without limitation, restructuring property, unspent proceeds of its restructuring bonds, transition charge revenues, and earnings from the investment and reinvestment of unspent proceeds of its restructuring bonds and transition charge revenues; and

(xii) do any and all things necessary or convenient to carry out its purposes and exercise the powers expressly given and granted in this section.

3. No authority to file for bankruptcy protection. The restructuring bond issuer shall not be authorized to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code. No governmental officer or organization is empowered to authorize, whether by executive order or otherwise, restructuring bond issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code. Until at least one year and one day after all restructuring bonds issued by restructuring bond issuer have ceased to be outstanding and all unpaid financing costs have been paid, the state hereby pledges, contracts and agrees with owners of restructuring bonds issued by restructuring bond issuer that the state will not limit or alter the denial of authority to the restructuring bond issuer to be a debtor under chapter 9 of the United States Bankruptcy Code or any other provision of the United States Bankruptcy Code.

4. Governance. The restructuring bond issuer shall be governed by a board consisting of three trustees appointed by the governor. The trustees shall not be trustees, directors, officers, or employees of the authority, LIPA or any successor owner of the T&D system assets.

(a) One of the trustees first appointed shall serve for a term ending four years from January first next succeeding his appointment; one of such trustees shall serve for a term ending five years from such date; and one of such trustees shall serve for a term ending six years from such date. Their successors shall serve for terms of six years each. Trustees shall continue in office until their successors have been appointed and qualified and the provisions of section 39 of the public officers law shall apply. In the event of a vacancy occurring in the

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office of a trustee by death, removal, resignation or otherwise, the Governor shall appoint a successor to serve for the balance of the unexpired term.

(b) Trustees shall serve without salary or other compensation, but each trustee shall be entitled to reimbursement for actual and necessary expenses incurred in the performance of his or her official duties.

(c) A majority of the trustees shall constitute a quorum for the transaction of any business or the exercise of any power or function of restructuring bond issuer. Any one or more trustees may participate in a meeting of the board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting. The board may delegate to one or more of its trustees, or officers, agents and employees, such powers and duties as the board may deem proper.

(d) Such trustees may engage in private employment, or in a profession or business. Restructuring bond issuer, its trustees, officers and employees shall be subject to the provisions of sections 73 and 74 of the public officers law.

(e) Notwithstanding any inconsistent provision of law to the contrary, general, special or local, no officer of the state or of any civil division thereof shall be deemed to have forfeited or shall forfeit his or her office or employment by reason of his or her acceptance of an appointment as trustee of restructuring bond issuer.

(f) The governor may remove any trustee for inefficiency, neglect of duty or misconduct in office after giving him or her a copy of the charges against him or her and an opportunity to be heard, in person or by counsel, in his or her defense, upon not less than ten days notice. If any trustee shall be so removed, the governor shall file in the office of the department of state a complete statement of the charges made against such trustee and his or her findings thereon, together with a complete record of the proceedings.

(g) Each trustee shall have a fiduciary duty to act in the best interests of the restructuring bond issuer, including its creditors, the owners of the restructuring bonds, and such other duties as may be specified in the organizational documents or other agreements of the restructuring bond issuer.

(h) The restructuring bond issuer and its corporate existence shall continue until one year and one day after all restructuring bonds and ongoing financing costs and other indebtedness of restructuring bond issuer have been actually paid and all its other liabilities and obligations have been paid, met or otherwise discharged. Upon termination of the existence of restructuring bond issuer, all of its rights and property shall pass to and be vested in the state.

§ 5. Restructuring cost financing orders. 1. Content of restructuring cost financing orders. The restructuring cost financing order shall include the following: (i) a description of the approved restructuring costs; (ii) the amount of approved restructuring costs that the authority proposes to pay through the sale of the restructuring property and the issuance of the restructuring bonds; (iii) designation of the authority as the entity in which initial ownership of restructuring property will vest; (iv) an estimate of the date on which restructuring bonds will be issued and the expected scheduled term to maturity of the restructuring bonds; (v) a description of the estimated debt service on the restructuring bonds and other ongoing financing costs that may be recovered through transition charges; as part of this description, the

restructuring cost financing order may include qualitative or quantitative limitations on financing costs approved to be recovered provided

that no such limitation on financing costs shall impair the ability of the restructuring bond issuer to pay and service the restructuring bonds in accordance with their terms; (vi) a proposed methodology for allocating transition charges on an equal percentage basis among customer service classifications and among volumetric (kWh) and demand (kW) charges within those customer service classifications, along with an associated bill impact analysis of the proposed methodology; (vii) a description of the proposed adjustment mechanism to reconcile actual collections with forecasted collection on at least an annual basis and a finding that the adjustment mechanism is just and reasonable; (viii) a description of the benefits to consumers in the service area that are expected to result from the sale of the restructuring property and the issuance of restructuring bonds as opposed to traditional alternative financing mechanisms; (ix) specifying the entity that will contract to act as servicer with respect to the restructuring property and the restructuring bonds on terms and conditions mutually acceptable to such servicer and the restructuring bond issuer; (x) specifying the entity or entities that will contract to provide administrative or other services to the restructuring bond issuer; (xi) specifying when the restructuring property will be created and vest and addressing such other matters as may be necessary or desirable for the marketing or servicing of the restructuring bonds or the servicing of the restructuring property; (xii) authorizing the imposition, billing and collection of transition charges to pay debt service on the restructuring bonds and other ongoing financing costs; (xiii) a description of the restructuring property that will be created and that may be used to pay and secure the payment of the restructuring bonds approved to be issued in the restructuring cost financing order; (xiv) a requirement that the amounts in the debt service reserve accounts or other accounts funded with the proceeds of restructuring bonds or transition charges be fully used, to the extent practical, to make the final payments of principal and interest on the restructuring bonds and other ongoing financing costs or to make refunds to consumers on the same basis as such consumers would have then been obligated to pay transition costs; and (xv) the finding required by subdivision 1 of section 3 of this act.

2. Periodic reports. A restructuring cost financing order shall require the restructuring bond issuer or the servicer to file at least annually with the authority and the appropriate financing entity a periodic report showing the billing and collection of transition charges, the application of transition charge revenues to debt service on the restructuring bonds and other ongoing financing costs, and the balances in any debt service reserve accounts or other accounts required by the restructuring cost financing order.

3. Adjustment mechanism.

(a) Each restructuring cost financing order shall include a mathematical formula for making periodic adjustments to the transition charges. The mathematical formula shall apply the following principles:

(i) The transition charges will be adjusted at least annually to ensure that the collections of transition charges are adequate to pay principal and interest on the associated restructuring bonds when due pursuant to the expected amortization schedule, to fund all debt service reserve accounts to the required levels and to pay when due all other expected ongoing financing costs.

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(ii) The adjustments of transition charges will take into account historical and reasonably foreseeable differences between amounts billed

and amounts collected due to applicable taxes, consumer defaults and delays, billing lags, write-offs and other factors.

(iii) The adjustments of transition charges will take into account historical and reasonably foreseeable variations in billings due to variations in electricity consumption associated with the seasons, storms and other weather conditions, outages, gain or loss of consumers, efficiencies, electric vehicles, economic conditions or other factors.

(iv) The adjustments of transition charges will take into account any over-collection or under-collection of transition charges so that, to the extent practical, the outstanding balance of restructuring bonds is equal to the scheduled balance on the expected amortization schedule, the amounts in the debt service reserve accounts are equal to the required reserve level, and all ongoing financing costs are paid when due.

(v) The adjustments of transition charges will be applied ratably to the transition charges for each customer service classification.

(b) Once restructuring bonds have been issued, the adjustment mechanism specified in the restructuring cost financing order shall be applied to correct for any over-collection or under-collection of transition charges and to provide for timely payment of scheduled principal of and interest on the restructuring bonds and the payment and recovery of other ongoing financing costs in accordance with the restructuring cost financing order. Application of the adjustment mechanism shall occur at least annually or more frequently as provided in the restructuring cost financing order. A notice of such periodic adjustment of transition charges shall be filed with the authority by or on behalf of the owner of restructuring property and a copy shall be provided to the owner of the T&D system assets at least sixty days before the adjustment is to take effect, provided that the restructuring bond issuer may request an earlier effective date.

(c) Each adjustment to the transition charge, in amounts as calculated by or on behalf of the owner of restructuring property, shall automatically become effective sixty days following the date on which the notice of periodic adjustment is filed with the authority unless the authority approves an earlier effective date requested by the restructuring bond issuer.

(d) Notwithstanding any other provision of law to the contrary, the authority shall allow interested parties thirty days from the date of filing of the notice for adjustment within which to make comments. Such comments shall be limited to the mathematical accuracy of the calculations of the amount of the adjustments. If the authority determines that the calculation of the transition charge adjustment in the notice was mathematically inaccurate, the transition charge adjustment shall be changed as soon as it is reasonably practical to do so, but estimated overcollections or undercollections resulting from the mathematical error shall be taken into account in the next succeeding periodic adjustment.

(e) No adjustment pursuant to this section shall in any way affect the irrevocability of the restructuring cost financing order as specified in subdivision 4 of section five of this act. No adjustment pursuant to this section shall require any approvals or action under any other law or shall be deemed to be the establishment of a new charge, fee or rate under any law.

4. Irrevocability of restructuring cost financing orders.

(a) A restructuring cost financing order shall be an irrevocable final

rate order when the time for any actions, suits, proceedings and appeals challenging such final restructuring cost financing order has lapsed or expired as provided in subdivision 3 of section three of this act.

(b) A restructuring cost financing order may be amended on or after the date of issuance of restructuring bonds approved thereunder only: (i) at the request of the authority; (ii) in accordance with any restrictions and limitations on amendment set forth in the restructuring cost financing order; (iii) subject to the limitations set forth in subdivision 7 of section three of this act; and (iv) upon approval by the PACB within thirty days of receipt of such amendment; provided, however, that if no approval or disapproval is made within such time, the amendment shall be deemed approved.

(c) This act, and any restructuring cost financing order made pursuant to this act, shall not be interpreted to alter or limit the rights vested in the authority to establish sufficient T&D rates to pay and perform all of its obligations and contracts with the authority's bondholders and others when due.

5. Effect of restructuring cost financing order.

(a) A restructuring cost financing order shall remain in effect and unabated until the restructuring bonds issued pursuant to the restructuring cost financing order have been paid in full and all ongoing financing and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(b) A restructuring cost financing order shall remain in effect and unabated notwithstanding the bankruptcy, reorganization or insolvency of the authority, the restructuring bond issuer, LIPA or any successor owner of the T&D system assets, or any affiliate of the aforementioned, or the commencement of any judicial or nonjudicial proceeding therefor.

(c) For so long as restructuring bonds issued pursuant to a restructuring cost financing order are outstanding, and the related approved restructuring costs have not been paid in full, the transition charges authorized in the restructuring cost financing order shall be non-bypassable and shall apply to all consumers connected to the T&D system assets and taking electric delivery service located within the service area, whether or not the consumers produce their own electricity or purchase electric generation services from a provider of electric generation services other than the owner of the T&D system assets and whether or not the T&D system assets continue to be owned by LIPA.

§ 6. Restructuring bonds. 1. No recourse. Restructuring bonds shall be without recourse to the credit or any assets of the authority, LIPA and the restructuring bond issuer, other than the restructuring property and other assets and revenues of restructuring bond issuer as specified in the pertinent restructuring cost financing order.

2. Exemption from taxation.

(a) It is hereby found and declared that the activities of the restructuring bond issuer are primarily for the benefit of the people of the state of New York, for the improvement of their welfare and prosperity, and is a public purpose, and the restructuring bond issuer shall be regarded as performing an essential governmental function in carrying out the provisions of this act.

(b) The restructuring bond issuer shall not be required to pay taxes or assessments upon any of the property acquired or controlled by it or upon its activities in the use thereof or upon income derived therefrom.

(c) Restructuring bonds, their transfer and the income therefrom shall, at all times, be free from taxation by the state or any municipi-

pality, except for estate and gift taxes.

3. Restructuring bonds not debt of the state. Restructuring bonds issued pursuant to a restructuring cost financing order and the provisions of this act shall not constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the state or of any county, municipality or any other political subdivision, agency or instrumentality of the state. Holders of restructuring bonds shall not be taxed by the legislature or the taxing authority of any county, municipality or any other political subdivision, agency or instrumentality of this state for the payment of the principal thereof or interest thereon. The issuance of restructuring bonds does not obligate the state or any county, municipality or any other political subdivision, agency or instrumentality of the state to levy any tax or make any appropriation for payment of the principal of or interest on the restructuring bonds. All restructuring bonds must contain a statement to the following effect: "Neither the full faith and credit nor the taxing power of the state of New York is pledged to the payment of the principal of, or interest on, this bond."

4. Restructuring bonds as legal investments. Any restructuring bonds issued by the restructuring bond issuer are hereby made securities in which all public officers and bodies of this state and all municipalities, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all trusts, estates and guardianships and all other persons whatsoever, who are now or may hereafter be authorized to invest in bonds or other obligations of this state, may properly and legally invest funds, including capital in their control or belonging to them. The restructuring bonds are also hereby made securities which may be deposited with and shall be received by all public officers and bodies of the state and all municipalities for any purpose for which the deposit of bonds or other obligations of the state is now or may hereafter be authorized.

§ 7. Restructuring property. 1. (a) Restructuring property that is created pursuant to a restructuring cost financing order shall constitute an existing, present property right, notwithstanding the fact that the imposition and collection of transition charges will depend on further acts that have not yet occurred, including but not limited to: (i) LIPA or any successor owner of the T&D system assets delivering electric energy or related services, (ii) a servicer performing servicing functions relating to the collection of transition charges, or (iii) the level of future consumption of electric energy. Restructuring property shall exist whether or not transition charges have been imposed, billed, accrued or collected and notwithstanding the fact that the value or amount of the restructuring property is dependent on the future provision of service to customers by LIPA or any successor owner of the T&D system assets.

(b) All restructuring property created pursuant to a restructuring cost financing order shall continue to exist until the restructuring bonds issued pursuant to such restructuring cost financing order are paid in full and all ongoing financing costs relating to the restructuring bonds have been paid in full.

(c) The restructuring property may be transferred, sold, conveyed or assigned to the restructuring bond issuer. All or any portion of

restructuring property may be pledged to secure the payment of restructuring bonds, amounts payable to financing parties, amounts payable to holders of restructuring bonds, amounts payable under any ancillary agreement and other ongoing financing costs. So long as the restructuring property remains pledged to secure the restructuring bonds, revenues from the collection of transition charges shall be applied solely to the repayment of restructuring bonds and other ongoing financing costs. After the occurrence of an event of default with respect to the restructuring bonds, all or any portion of restructuring property may be transferred, sold, conveyed or assigned to any person or entity. Any transfer, sale, conveyance, assignment, grant of a security interest in or pledge of restructuring property by the authority, the restructuring bond issuer, or other financing entity, to the extent previously approved in a restructuring cost financing order, does not require the prior consent and approval of any other person or entity under the public service law or any other law.

(d) If the owner of the T&D system assets, servicer, third-party biller, or any other person or entity authorized to collect transition charges, defaults on any required remittance of transition charge revenues, any court in the state, upon application by an interested party and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the transition charge revenues for the benefit of the owners or pledgees of restructuring property. The order shall remain in full force and effect notwithstanding any bankruptcy, reorganization, or other insolvency proceedings with respect to a servicer, authority, LIPA or any successor owner of the T&D system assets or any affiliate thereof or of any other person or entity.

(e) Restructuring property, transition charges, transition charge revenues, and the interests of an assignee, bondholder, financing party or any other person in restructuring property or in transition charge revenues, are not subject to setoff, counterclaim, surcharge or defense by a servicer, any consumer, the authority, LIPA or any successor owner of the T&D system assets or any other person or in connection with any default, bankruptcy, reorganization or other insolvency proceeding of the authority, LIPA or any successor owner of the T&D system assets, any affiliate thereof or any other entity or otherwise. To the extent that any consumer makes a partial payment of a bill containing both transition charges and any other charges, such payment shall be allocated pro rata between the transition charges and the other charges unless the consumer specifies that a greater proportion of such payment is to be allocated to the transition charges, except that the other charges shall be reduced by the amount of any claims of setoff, counterclaim, surcharge or defense for purposes of such allocation.

(f) Any successor owner of the T&D system assets and any successor servicer shall be bound by the requirements of this act and shall perform and satisfy all obligations of a servicer in the same manner and to the same extent under a restructuring cost financing order as did LIPA and the initial servicer, including, without limitation, the obligation to impose, bill and collect the transition charges and to pay such collections to the person entitled to receive the transition charge revenues.

2. Security interests. Any pledge of restructuring property or proceeds thereof, including any moneys, revenues or property or of a revenue producing contract or contracts constituting part of the

restructuring property, made by the owner of restructuring property,

shall be perfected, valid and binding from the time when the pledge is made. The proceeds, moneys, revenues or proceeds so pledged and thereafter received by the owner of restructuring property shall immediately be subject to the lien of such pledge, and such lien shall be perfected, without any physical delivery thereof or further act. The lien of any such pledge shall be perfected, valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the owner of restructuring property irrespective of whether such parties have notice thereof and shall be superior to any judicial liens or other liens obtained by such claimants or transferees. The description of the restructuring property in a pledge or security agreement and any financing statement is sufficient if and only if the description refers to this Act and the restructuring cost financing order creating such restructuring property. No instrument by which a pledge or lien is created pursuant to this subdivision need be recorded in order to perfect such pledge or lien. However, the restructuring bond issuer shall cause a financing statement describing the pledge and referring to the restructuring cost financing order and the restructuring property described therein to be filed for informational purposes only under article 9 of the uniform commercial code. The secretary of state shall maintain any financing statement filed under this section in the same manner that the secretary maintains financing statements filed by transmitting utilities under section 9-501 of the uniform commercial code until a termination statement is filed. A pledge of restructuring property is a continuously perfected security interest and has priority over any other lien, created by operation of law or otherwise, that may subsequently attach to that restructuring property or proceeds thereof unless the holder of any such lien has agreed in writing otherwise. Any pledgee of restructuring property shall have a perfected security interest in the amount of all restructuring property revenues or other proceeds that are deposited in any deposit account or other account of the servicer or other entity in which restructuring property revenues or other proceeds have been commingled with other funds. Any other security interest that may apply to restructuring revenues or other proceeds shall be terminated when such revenues or proceeds are transferred to a segregated account for an assignee or a financing party. No application of the adjustment mechanism as described in this act shall affect the validity, perfection, or priority of a pledge of, security interest in or the sale or transfer of restructuring property.

3. Sales of restructuring property.

(a) A transfer of all or any portion of restructuring property, which the parties in the governing documentation have expressly stated to be a sale or other absolute transfer, in a transaction approved in a restructuring cost financing order, shall be treated as an absolute transfer of all of the transferor's right, title, and interest (as in a true sale), and not as a pledge or other financing, of the restructuring property, other than for federal, state and local income and franchise tax purposes.

(b) Any transfer of an interest in restructuring property shall be perfected, vested, valid and binding from the time when the transfer is made. Such transfer shall be perfected, vested, valid and binding as against the transferor, all parties having claims of any kind in tort, contract or otherwise against the transferor, and all other transferees of the transferor, irrespective of whether such parties have notice thereof and shall be superior to any judicial liens or other liens

obtained by such claimants or transferees. The description of the restructuring property in a sale or transfer agreement and any financing statement is sufficient if and only if the description refers to this act and the restructuring cost financing order creating such restructuring property. No instrument by which a transfer is created pursuant to this section need be recorded in order to perfect such transfer. However, the restructuring bond issuer shall cause a financing statement describing the pledge and referring to the restructuring cost financing order and the restructuring property described therein to be filed for informational purposes only under article nine of the uniform commercial code. The secretary of state shall maintain any financing statement filed under this section in the same manner that such secretary maintains financing statements filed by transmitting utilities under section 9-501 of the uniform commercial code until a termination statement is filed.

(c) The characterization of the sale, assignment or transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the purchaser, shall not adversely be affected or impaired by, among other things, the occurrence of any of the following factors: (i) commingling of revenues or other proceeds from transition charges with other amounts; (ii) the retention by the seller of: (A) a partial or residual interest, including an equity interest, in the restructuring property, whether direct or indirect, or whether subordinate or otherwise; or (B) the right to recover costs associated with taxes, payments in lieu of taxes, franchise fees or license fees imposed on the collection of transition charges; (iii) any recourse that the purchaser may have against the seller; (iv) any indemnification rights, obligations or repurchase rights made or provided by the seller; (v) the obligation of the seller to collect transition charges on behalf of an assignee, including but not limited to, any retention by the seller to bare legal title for the purpose of collecting transition charges; (vi) the treatment of the sale, assignment or transfer for tax, financial reporting or other purposes; (vii) any subsequent order of the authority amending a restructuring cost financing order pursuant to paragraph (b) of subdivision 4 of section five of this act; or (viii) any application of the adjustment mechanism as provided in subdivision 3 of section five of this act.

(d) An assignee or financing party shall not be considered to be a public utility or person providing electric service solely by virtue of the transactions described in this act.

§ 8. Rights and duties while restructuring bonds are outstanding. 1. Responsibilities of the authority. (a) For the purpose of investigating compliance with the provisions of this act and the applicable restructuring cost financing order, the authority shall have the right, jurisdiction, power and authority to examine the books and records of LIPA or any successor owner of the T&D system assets, the restructuring bond issuer, any other financing entity, any servicer, any third-party biller and any other person or entity that owns restructuring property or has the right to impose, bill or collect transition charges until the restructuring bonds issued pursuant to the restructuring cost financing order have been paid in full and all financing costs relating to such restructuring bonds have been paid in full.

(b) Neither the authority nor any successor regulator may, in exercising its powers and carrying out its duties regarding regulation and ratemaking, consider restructuring bonds issued pursuant to the restructuring cost financing order to be the debt of any owner of the T&D

system assets, consider transition charges paid under the restructuring cost financing order to be revenue of any owner of the T&D system assets, or consider the approved restructuring costs or ongoing financing costs specified in the restructuring cost financing order to be costs of any owner of the T&D system assets or any affiliate, nor may the authority or any successor regulator determine that any action taken by any owner of the T&D system assets that is consistent with the restructuring cost financing order is unjust or unreasonable from a regulatory or ratemaking perspective; provided that, subject to the limitations set forth in subdivision 4 of section five of this act and the state pledge in section nine of this act, nothing in this subdivision shall (i) affect the authority to apply the adjustment mechanism as provided in subdivision 3 of section five of this act; (ii) prevent or preclude the authority from investigating the compliance of any owner of the T&D system assets and of any financing entity with the terms and conditions of a restructuring cost financing order and requiring compliance therewith; or (iii) prevent or preclude the authority or any successor regulator from imposing regulatory sanctions against any owner of the T&D system assets for failure to comply with the terms and conditions of a restructuring cost financing order or the requirements of this act. When setting other rates for any owner of the T&D system assets, nothing in this act shall prevent the authority or any successor regulator from taking into account the collection by such owner of servicing fees in excess of incremental costs of providing servicing services, or the collection by such owner of administration fees in excess of incremental costs of providing administration services; provided that this would not result in a recharacterization of the tax, accounting, and other intended characteristics of the financing, including, but not limited to, either of the following: (i) treating restructuring bonds as debt for federal income tax purposes; or (ii) treating any transfer of the restructuring property to the restructuring bond issuer or to any other financing entity as a true sale for bankruptcy purposes.

2. Duties of financing entities and any owner of T&D system assets.

(a) Any failure of any financing entity to apply the proceeds of restructuring bonds, or proceeds from the sale of restructuring property, in a reasonable, prudent and appropriate manner or otherwise comply with any provision of this act shall not invalidate, impair or affect any restructuring cost financing order, restructuring property, transition charge, or restructuring bonds.

(b) Any owner of T&D system assets, any servicer, any third-party biller and any other entity that bills or collects T&D rates shall simultaneously impose, bill and collect any transition charges applicable to consumers in the service area, including all consumers connected to the T&D system assets and taking electric delivery service located within the service area, shall allocate partial payments by consumers as provided in this act, shall terminate service to non-paying consumers on the same basis as termination of service is permitted for non-payment of T&D rates, shall exercise all enforcement rights of the owner or pledgee of the restructuring property for the benefit of such owner or pledgee, and shall remit any transition charge revenue to the owner or pledgee of the restructuring property.

§ 9. State pledge. (a) The state pledges to and agrees with the holders of restructuring bonds, any assignee and all financing entities that the state will not in any way take or permit any action that limits, alters or impairs the value of restructuring property or, except as

required by the adjustment mechanism described in the restructuring cost financing order, reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

(b) Any person who issues restructuring bonds is permitted to include the pledge specified in subdivision (a) of this section in the restructuring bonds, ancillary agreements and documentation related to the issuance and marketing of the restructuring bonds.

§ 10. Choice of law. The law governing, as applicable, the validity, enforceability, attachment, perfection, priority and exercise of remedies with respect to the transfer of an interest or right or creation of a security interest in any restructuring property, transition charge or restructuring cost financing order, shall be the laws of the state of New York.

§ 11. Conflicts. In the event of conflict between this act and any other law regarding the attachment, assignment or perfection, or the effect of perfection, or priority of any pledge of, security interest in or transfer of restructuring property, this act shall govern to the extent of the conflict. In the event of conflict between this act and the public service law, the Long Island power authority act or any other law, this act shall govern to the extent of the conflict. Notwithstanding any provisions of law to the contrary, no approvals, notices or authorizations other than those specified in this act shall be required with respect to any restructuring cost financing order, and the transactions and contracts authorized in or contemplated by this act or any restructuring cost financing order, including but not limited to the incurrence and payment of any financing costs, the incurrence or payment of any approved restructuring costs, the issuance of restructuring bonds, the sale or other transfer of restructuring property, and any contracts and expenses incurred to facilitate the preparation of any restructuring cost financing order.

§ 12. Effect of invalidity on actions. Effective on the date that restructuring bonds are first issued under this act, if any provision of this act is held to be invalid or is invalidated, superseded, replaced, repealed or expires for any reason, that occurrence shall not affect any action allowed under this act that is taken by the authority, LIPA, the restructuring bond issuer, any owner of T&D system assets, an assignee, a collection agent, a financing party, a holder of restructuring bonds or a party to an ancillary agreement and any such action shall remain in full force and effect.

§ 13. Effectiveness of the act. The authority may not adopt its first restructuring cost financing order after the five year period after the effective date of this act.

§ 14. Severability. If any section, subdivision, paragraph or subparagraph of this act or the application thereof to any person, circumstance or transaction is held by a court of competent jurisdiction to be unconstitutional or invalid, the unconstitutionality or invalidity shall not affect the constitutionality or validity of any other section, subdivision, paragraph or subparagraph of this act or its application or validity to any person, circumstance or transaction, including, without limitation, the irrevocability of a restructuring cost financing order

ing bonds, the imposition of transition charges, the transfer or assignment of restructuring property or the collection and recovery of revenues from transition charges. To these ends, the legislature hereby declares that the provisions of this act are intended to be severable and that the legislature would have enacted this act even if any section, subdivision, paragraph or subparagraph of this act held to be unconstitutional or invalid had not been included in this act.

§ 15. Standing. (a) The owner of restructuring property, or the trustee representing holders of restructuring bonds, shall be expressly permitted hereby to bring actions against any owner of the T&D system assets, any third-party biller, or any other entity authorized to bill or collect T&D rates, any consumers in the service area or any other person or entity for failure to impose, bill, pay or collect any transition charges constituting part of the restructuring property then held pledged as security for such restructuring bonds or for enforcement of any other provision of this act or the applicable restructuring cost financing order.

(b) Except as provided in section three of this act, any court and the authority shall have jurisdiction over any actions for failure to impose, bill, pay or collect any transition charges or for enforcement of other provision of this act or any restructuring cost financing order.

§ 16. Third-party billing. If and to the extent that third parties are allowed to bill and/or collect any transition charges, the authority, any successor regulator, and any owner of the T&D system assets will take steps to ensure non-bypassability and minimize the likelihood of default by third-party billers, which generally would include (i) operational standards and minimum credit requirements for any such third-party biller, or require a cash deposit, letter of credit or other credit mitigant in lieu thereof, to minimize the likelihood that defaults by a third-party biller would result in an increase in transition charges thereafter billed to consumers, (ii) a finding that, regardless of who is responsible for billing, consumers shall continue to be responsible for transition charges, (iii) if a third party meters and bills for the transition charges, that the owner of the T&D system assets and any servicer must have access to information on billing and usage by consumers to provide for proper reporting to the restructuring bond issuer and to perform its obligations as servicer, (iv) in the case of a default by a third-party biller, billing responsibilities must be promptly transferred to another party to minimize potential losses, and (v) the failure of consumers to pay transition charges shall allow service termination by the owner of the T&D system assets on behalf of the restructuring bond issuer of the consumers failing to pay transition charges in accordance with service termination rules and orders applicable to T&D rates. Any costs associated with such third-party billing and/or collection shall be included as part of the recoverable ongoing financing costs or other rates or charges, as appropriate. Further, the authority and any successor regulator shall not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the then current ratings on any tranche or series of the restructuring bonds by any nationally recognized statistical rating organization designated by the restructuring bond issuer.

§ 17. This act shall take effect immediately.

§ 2. Severability clause. If any clause, sentence, paragraph, subdivi-

sion, section or part of this act shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not take
37 CHAP. 173

affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, subdivision, section or part thereof directly involved in the controversy in which such judgment shall have been rendered. It is hereby declared to be the intent of the legislature that this act would have been enacted even if such invalid provisions had not been included herein.

§ 3. This act shall take effect immediately; provided, however, that the applicable effective date of Parts A through B of this act shall be as specifically set forth in the last section of such Parts.

The Legislature of the STATE OF NEW YORK ss:

Pursuant to the authority vested in us by section 70-b of the Public Officers Law, we hereby jointly certify that this slip copy of this session law was printed under our direction and, in accordance with such section, is entitled to be read into evidence.

DEAN G. SKELOS
Temporary President of the Senate

SHELDON SILVER
Speaker of the Assembly

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

16 June 2016

Pre-Sale

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Estimated Closing Date

June 2016

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Duke Energy Florida Project Finance, LLC Series A Bonds

First Duke Energy Florida-Sponsored Utility Cost Recovery Bond

Capital Structure

Exhibit 1

Provisional (P) Ratings

Series	Provisional Rating	Expected Amount	Coupon	Legal Final Maturity Date
Series A 2018	(P)Aaa (sf)	\$183,000,000	Fixed	3/1/2022
Series A 2021	(P)Aaa (sf)	\$150,000,000	Fixed	9/1/2024
Series A 2026	(P)Aaa (sf)	\$436,000,000	Fixed	9/1/2031
Series A 2032	(P)Aaa (sf)	\$250,000,000	Fixed	3/1/2035
Series A 2035	(P)Aaa (sf)	\$275,290,000	Fixed	9/1/2038
Total		\$1,294,290,000		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks are not addressed, but may have a significant effect on yield to investors.

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Summary Rating Rationale

We have assigned provisional ratings to the five classes of bonds (Series A bonds, or the bonds) that Duke Energy Florida Project Finance, LLC (the issuer) will issue. The issuer is wholly-owned by Duke Energy Florida, LLC (DEF; A3 Stable), a subsidiary of Duke Energy Corporation (Baa1 negative), one of the largest utility holding companies in the US. DEF formed the issuer to securitize a special charge on DEF customers' utility bills. The charge is imposed to recover certain costs associated with DEF's retirement of its Crystal River Unit 3 (CR3) nuclear power plant, including certain capitalized costs of the retired nuclear generating asset and ancillary costs and fees, as well as financing costs associated with this issuance. The Series A bonds will be the first utility cost recovery bonds sponsored by DEF.

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 15 June 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

As a regulated utility, DEF is typically entitled to recover specified costs of acquiring, constructing and improving energy generating assets which are generally capitalized and recovered over the useful life of that asset. The Florida Public Service Commission (FPSC) has authorized DEF to recover a specified portion of DEF's remaining unrecovered capitalized and newly incurred costs associated with the early retirement of the CR3 nuclear plant (nuclear asset-recovery costs). The nuclear asset-recovery costs, together with interest and other financing costs, are recovered by irrevocable, binding, nonbypassable charges (nuclear asset-recovery charges) imposed on all DEF transmission and distribution customers for the total value of the nuclear asset-recovery costs. The right to impose, bill, collect and receive the nuclear asset-recovery charges (nuclear asset-recovery property) is the primary collateral backing the Series A bonds.

Our provisional ratings reflect our assessment of the legal and structural aspects of the transaction including the State of Florida's legislation, financing order and state pledge, the mandatory uncapped true-up mechanism, the relatively low level of the recovery charge as compared to prior rated utility cost recovery transactions, the large and diversified ratepayer base, and the credit quality of the servicer.

Credit Strengths

Strength of Legislation and Financing Order: The State of Florida's legislation (Section 366.95, Florida Statutes, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on December 19, 2015 permits the securitization and strongly protects the nuclear asset-recovery property securing the bonds. Similar to other utility cost recovery securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of Florida pledges to bondholders that it will not (1) alter provisions of the securitization law which make the nuclear asset-recovery charges irrevocable, binding, and nonbypassable; (2) take or permit any action that impairs the value of the nuclear asset-recovery property, or (3) except as authorized by the true-up adjustment mechanism, reduce, alter or impair nuclear asset-recovery charges until the bonds have been repaid in full (the state pledge). In addition, the securitization law and financing order contain the typical strong true-sale and security interest provisions.

FPSC's irrevocable financing order authorizes DEF to recover specified costs of retiring the CR3 nuclear plant by collecting nuclear asset-recovery charges. This nuclear asset-recovery property grants the issuer the right to impose, bill and collect, nonbypassable nuclear asset-recovery charges based on electricity usage, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full. In this context, nonbypassable refers to the requirement that the charges be levied on all of DEF's existing and future retail electric customers receiving transmission and distribution services in DEF's service area, including customers of any DEF successor or assignee, and even if a customer elects to purchase electricity from an alternative electric supplier following a deregulation of public utilities in Florida.

True-Up Adjustment Mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts nuclear-asset recovery charges semiannually (and quarterly after the last scheduled maturity date of the bonds of any series) to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments, at any time if the servicer deems necessary to ensure timely bond payments.

Relatively Low Recovery Charge: DEF expects the securitization's initial nuclear asset-recovery charge to represent around 2.5% of the total monthly bill that a 1,000 kilowatt hour (kWh) residential customer in DEF's service area will receive as of April 2016; this percentage charge is relatively low compared to charges in other utility cost recovery transactions. For context, the three most recent utility cost recovery bond issuances we rated, Utility Debt Securitization Authority, sponsored by LIPA, Entergy New Orleans Storm Recovery Funding I, LLC, and the Louisiana Utilities Restoration Corporation Project/ ELL, had a cumulative (including prior utility cost recovery charges to the same customer base) initial recovery charge amounting to 6.9%, 2.5%, and 3.7% of a 1,000 kWh residential bill, respectively.

Strength of the Ratepayer Base: The size, economic stability and diversity of the ratepayer base in DEF's service area is a credit strength. The service area includes the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas. The service area primarily

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

includes a mix of residential customers (59% by revenue) and commercial customers (28% by revenue). Unlike most other utility cost recovery securitizations, the service area includes very few industrial customers (6% by revenue), which is a credit positive. Energy consumption by industrial customers is more volatile compared with other types of customers, because consumption by industrial operations is more closely tied to the business cycle.

Strength and Experience of the Servicer: We rate DEF A3 with a stable outlook. DEF does not have prior servicing experience with nuclear asset-recovery charges, but is highly experienced in calculating and implementing similar rates and charges under various cost recovery statutes and billing those amounts to customers. DEF has over one hundred years of experience in collecting similar charges from its customers.

Credit Challenges

Challenges to Securitization Law and Financing Order: Potential state and federal legislative and regulatory actions could weaken the legal protections of the nuclear asset-recovery property; however we view this risk as remote. Florida does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to repeal or amend the securitization law, or for FPSC to amend or revoke the financing order, would be through an amendment to the state constitution or a legislative action, either of which would violate the state pledge. The risk that the State of Florida would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered.

The people of the State of Florida have the right to amend the Florida Constitution through initiative powers. It is possible that the people of Florida, using their initiative powers, might amend or repeal the Florida Constitution in a manner affecting the securitization law. The process to propose a revision or amendment to the Florida Constitution by initiative is extremely burdensome. DEF is currently unaware of any efforts to amend the Florida Constitution in a manner which would affect the securitization law in any way.

On February 26, 2016, DEF was served with a class action lawsuit in which the plaintiffs allege that the nuclear cost recovery statute (Section 366.93, Florida Statutes) is unconstitutional on various grounds. The putative plaintiffs seek a refund of costs paid by DEF customers pursuant to the nuclear cost recovery statute. The securitization law is not the subject of this litigation.

We view the risk to bondholders from this litigation as remote. Several past challenges to securitization laws such as this have been unsuccessful, and even in the low likelihood event that this challenge is successful, the arguments put forward by the plaintiffs are generally not relevant to the securitization law.

Potential for Insufficient Collections: Collections arising from the nuclear asset-recovery property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration, self-generation and storm damage. DEF's estimates of market demand, energy prices and growth within its service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, in which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments occur semiannually and on an interim basis as needed.

Key Characteristics

Asset Characteristics (as of 15 June 2016)

Exhibit 2

Asset Characteristics

Assets:	Nuclear asset-recovery property, which consists of all rights and interest of the issuer under the financing order, including the right to impose, bill, collect and receive irrevocable, binding, nonbypassable charges based on the usage of electricity from all existing or future customers receiving transmission or distribution service from DEF or its successors or assignees
Service Area:	DEF's service area covers approximately 13,000 square miles, including the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas, and supplies electric service to approximately 1.7 million residential, commercial and industrial customers

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Securitization Structure Characteristics

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Series A Senior Secured Bonds
Amount:	\$1,294,290,000
Structure:	Standalone trust
Credit Enhancement:	Mandatory uncapped true-up mechanism, Capital Subaccount
Transaction Parties	
Sponsor/Depositor/Service:	Duke Energy Florida, LLC
Issuer:	Duke Energy Florida Project Finance, LLC
FPSC Financial Advisor:	Saber Partners, LLC
Trustee:	The Bank of New York Mellon Trust Company, National Association

Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Assets Overview

In February 2013, DEF announced it would close and decommission the CR3 nuclear power plant. The FPSC has authorized DEF to recover a portion of its remaining unrecovered capitalized and newly incurred costs associated with the early retirement of the plant (nuclear asset-recovery costs). The nuclear asset-recovery costs, together with interest and other financing costs, are recovered by irrevocable, binding, nonbypassable charges (nuclear asset-recovery charges) imposed on all DEF transmission and distribution customers for the total value of the nuclear asset-recovery costs. The right to impose, bill, collect and receive the nuclear asset-recovery charges is the primary collateral (nuclear asset-recovery property) backing the Series A bonds.

The bonds are also secured by funds on deposit in the collection account, including the general subaccount, the capital subaccount and the excess funds subaccount, by the issuer's rights under the various transaction documents, by the issuer's right to compel the servicer to file for and obtain true-up adjustments, and by all payments on or under the pledged collateral and by all proceeds in respect to the pledged collateral.

Assets Description

The Securitization Law

In 2015, the Florida legislature enacted the securitization law, codified as Section 366.95, Florida Statutes. The securitization law allows electric utilities to access lower-cost funds through nuclear asset-recovery bonds pursuant to financing orders issued by the FPSC. One purpose of the securitization law is to lower the cost to customers associated with the long-term financing of costs incurred in connection with the early retirement or abandonment of a nuclear generating asset unit. The early retirement or abandonment must be deemed reasonable and prudent by the FPSC through a final order approving a settlement or other final order issued by the FPSC before July 1, 2017, and the pretax costs to be financed must exceed \$750 million.

The securitization law permits DEF to impose irrevocable, binding, nonbypassable nuclear asset-recovery charges on all future and existing customers receiving transmission or distribution service from DEF or its successors or assignees under FPSC-approved rate schedules or under special contracts sufficient to pay principal of and interest on the bonds and other administrative expenses of the offering. The FPSC governs the amount and terms for collections of these nuclear asset-recovery charges through one or more financing orders issued to DEF. Upon the issuance of the bonds these nuclear asset-recovery charges may not be reduced, impaired, postponed, terminated or otherwise adjusted by the FPSC except as adjusted pursuant to the true-up mechanism.

Florida and other states have passed legislation similar to the securitization law to authorize recoveries by utilities of specified costs, such as hurricane recovery costs, environmental control costs, or costs associated with deregulation of the electricity market, and some of those laws have been challenged by judicial actions or utility commission proceedings. To date, none of those challenges has succeeded.

The securitization law provides that a valid and enforceable security interest in nuclear asset-recovery property will attach only upon the later of: the issuance of a financing order, the execution and delivery of a security agreement with the indenture trustee in connection with issuance of a series of bonds, and the receipt of value for such bonds. Although not governed by the UCC, upon filing notice with the Florida UCC registry the lien and security interest will be continuously perfected. The security interest will have priority in the order of filing and take precedence over any subsequent judicial or other lien creditor. No continuation statements are necessary to maintain such perfection. The servicer pledges in the servicing agreement to file in the Florida UCC registry on or before the closing date and the seller will represent that no prior filing has been made.

The Financing Order

The FPSC issued an irrevocable financing order to DEF on November 19, 2015. That financing order became final and non-appealable on December 19, 2015. Pursuant to the financing order, DEF established the issuer to be a bankruptcy-remote special purpose subsidiary to issue the nuclear asset-recovery bonds. In the financing order, the FPSC authorized the imposition and collection of nuclear asset-recovery charges on all DEF transmission and distribution customers. DEF, as initial servicer, will collect nuclear asset-recovery charges on the issuer's behalf and will remit the nuclear asset-recovery charges to the indenture trustee.

The FPSC expects the financing order to result in a substantial cost savings to ratepayers of \$708 million or \$1.95 per month for 1,000 kWh, versus the traditional method of cost recovery under current and expected market conditions. The financing order has been praised publicly by regulators and consumer advocacy groups, further insulating the financing order from challenge.

The State Pledge

The securitization law includes a pledge from the State of Florida to the bondholders that it will not (1) alter the provisions of the securitization law which make the nuclear asset-recovery charges irrevocable, binding, and nonbypassable; (2) take or permit any action that impairs the value of nuclear asset-recovery property; or (3) except as authorized by the true-up adjustment mechanism, reduce, alter, or impair the nuclear asset-recovery charges until the bonds have been repaid in full.

Any action of the Florida legislature adversely affecting the nuclear asset-recovery charges or the ability to charge or collect the charges would likely require the State of Florida to pay just compensation under the "takings clause" of the US and Florida Constitutions. The seller agrees that it will institute any action or proceeding necessary to compel performance by the FPSC, the State of Florida or any of their respective agents of any of their obligations or duties under the securitization law or any financing order.

The Nuclear Asset-Recovery Charges

The nuclear asset-recovery charges are nonbypassable, consumption-based charges separate and apart from DEF's base rates; the nuclear asset-recovery charges are to be paid by all existing and future customers receiving transmission or distribution service from DEF or its successors or assignees under FPSC-approved rate schedules or under special contracts. Such customers must pay nuclear asset-recovery charges even if DEF goes out of business and its transmission and distribution services are taken over by another utility or if a customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida. No customer receiving transmission or distribution service from DEF can avoid the charge. The only way to avoid the charge is to disconnect from DEF's electric grid.

The nuclear asset-recovery charges are permitted to continue for 276 months from issuance, or until the bonds are paid in full. The expected scheduled final payment date for the Series A 2033 bonds is 240 months from issuance, providing up to an additional 36 months of nuclear asset-recovery charges if necessary to pay the bonds.

The Nuclear Asset-Recovery Costs

The nuclear asset-recovery charges authorized by the financing order allow DEF to recover nuclear asset-recovery costs related to retiring the CR3 nuclear plant located in Citrus County, Florida. CR3 was originally placed in service in 1977. In February 2013, DEF announced the early retirement of the project. DEF's unrecovered net investment in the project was approximately \$1.6 billion. In October 2013, the FPSC approved a settlement agreement whereby DEF agreed to write-off approximately \$300 million of its unrecovered net investment in CR3. The settlement agreement allowed DEF to recover its remaining unrecovered net investment in the project of approximately \$1.3 billion over a 240 month period beginning no later than the first billing period of January 2017.

The nuclear asset-recovery costs financed by the bonds are equal to (i) the balance of the CR3 regulatory asset as of December 31, 2015 as allowed under the financing order minus (ii) \$35,894,547, which, pursuant to the FPSC's Final Order PSC-16-0138-FOF-EI issued on April 5, 2016, shall not be included as part of the CR3 regulatory asset, plus (iii) carrying charges accruing at 6.0% per annum on the balance of the CR3 regulatory asset (adjusted as described in (ii) above) from December 31, 2015 through June 21, 2016.

Excluded from the amount being financed is \$35,894,547 of costs claimed pursuant to Section 366.93, Florida Statutes. On February 26, 2016, DEF was served with a class action lawsuit in which the plaintiffs allege that the nuclear cost recovery statute (366.93) is unconstitutional on various grounds. The putative plaintiffs seek a refund of costs paid by DEF customers pursuant to the nuclear cost recovery statute. The securitization law is not the subject of this litigation.

The suit claims DEF unlawfully charged customer higher rates to cover more than \$1.2 billion in expenses at its Crystal River nuclear power plant and at its proposed (and now shelved) Levy County nuclear plant site. In addition to the suit seeking relief for nuclear recovery costs, it also seeks to nullify as unconstitutional the nuclear cost recovery system and all nuclear cost recovery orders issued by the FPSC, and it seeks an order enjoining defendants from further unlawful charges. The likelihood of the lawsuit prevailing is low considering other lawsuits challenging the constitutionality of Florida's nuclear cost recovery statute have been found to be without merit and rejected by Florida courts.

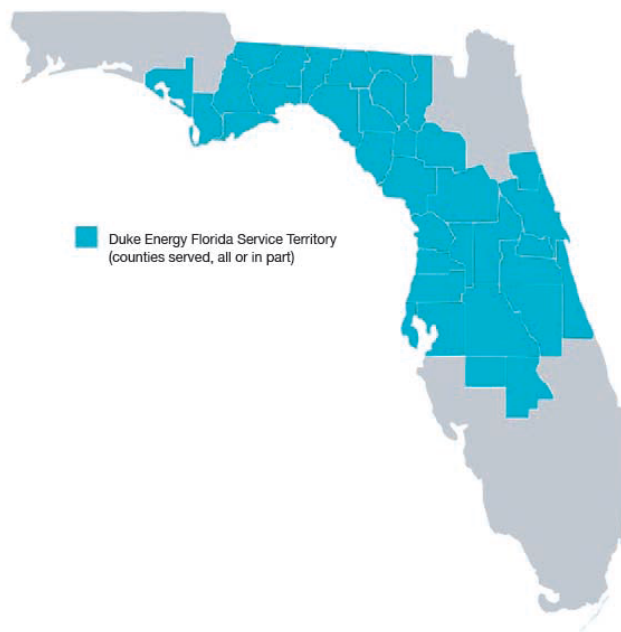
The Service Area

DEF's service area covers approximately 13,000 square miles, including the greater Gainesville, Orlando, St. Petersburg, and Tallahassee areas, and supplies electric service to approximately 1.7 million residential, commercial and industrial customers. During the twelve

months ended December 31, 2015, DEF billed approximately 38.6 billion kilowatt hours of electricity to its covered electric customers in Florida, resulting in revenues of approximately \$4.4 billion. Exhibit 4 below shows a map of DEF's service area.

Exhibit 4

Duke Energy Florida Service Area



Source: Duke Energy Florida Project Finance, LLC Series A Preliminary Prospectus dated June 15, 2016

Statutory Uncapped True-Up Adjustment Mechanism

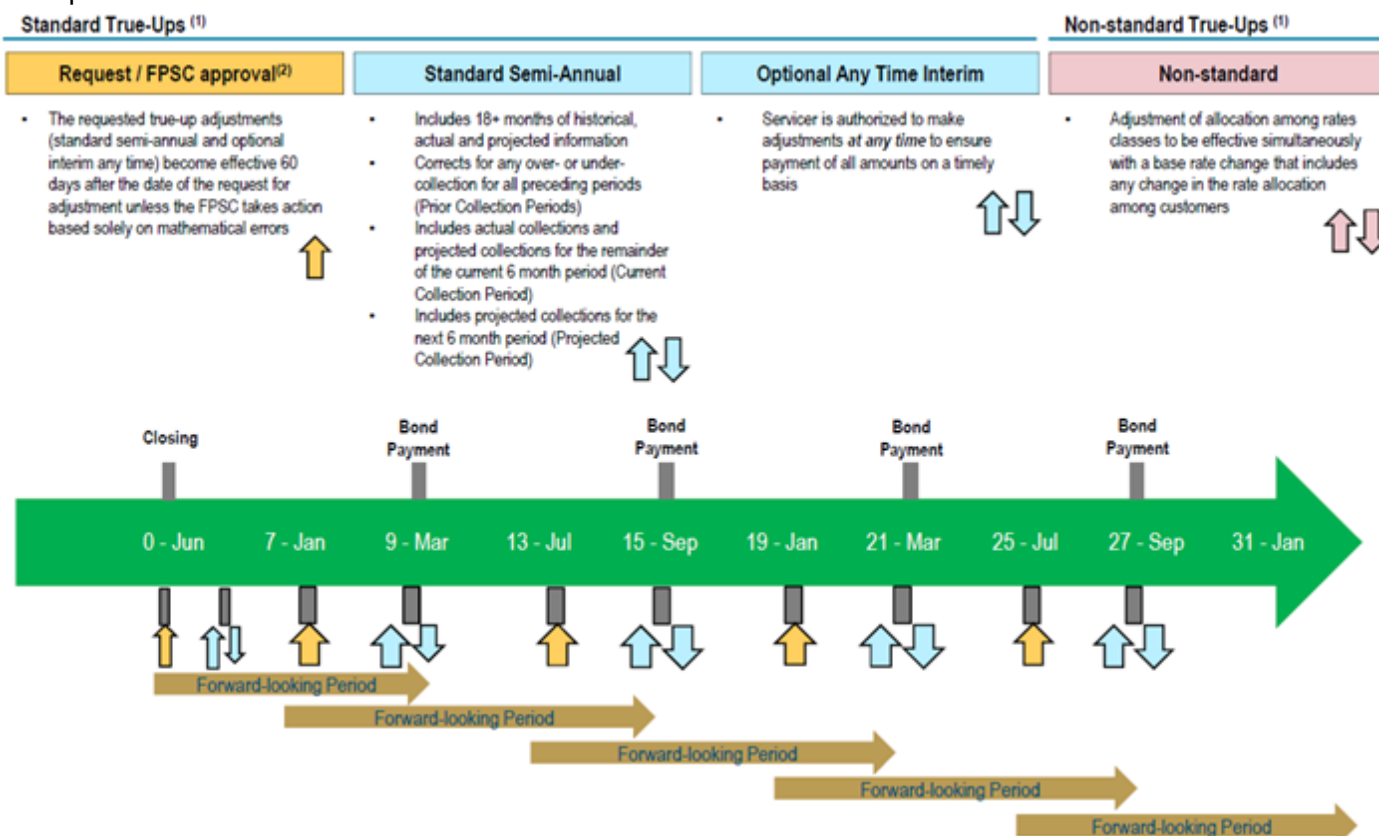
The securitization law and the financing order require that the issuer or DEF file with the FPSC at least semi-annually (and quarterly after the scheduled final payment date for the latest maturing bond) a letter applying the true-up mechanism to correct for any overcollection or undercollection of the nuclear asset-recovery charges and make any adjustments to ensure the recovery of revenues sufficient to provide for the timely payment of scheduled principal and interest on the bonds and other required amounts and charges. The FPSC's review of any adjustment request is limited solely to determining whether there is any mathematical error in the application of the formula-based mechanism.

Under the servicing agreement, the servicer will make adjustments to the nuclear asset-recovery charges at least semi-annually. In addition to the semi-annual true-up adjustment, the servicer is authorized to make interim adjustments at any time for any reason to ensure the timely payment on the bonds. In addition, the servicer will make a non-standard true-up adjustment to be effective simultaneously with a base rate change that includes any change in the rate allocation among customers used to determine the nuclear asset-recovery charges. Exhibit 5 below illustrates the true-up mechanism.

Under the irrevocable financing order, the FPSC guarantees it will act, as directed by the securitization law, to implement the true-up mechanism for making any adjustments that are necessary to correct for any overcollection or undercollection of the nuclear asset-recovery charges or to otherwise ensure the timely payment of principal of and interest on the bonds when due.

Exhibit 5

True-Up Mechanism



Source: DEF

Servicing

DEF will be the initial servicer of the bonds. DEF, as servicer, will be responsible for, among other things, calculating, billing, collecting and posting the nuclear asset-recovery charges from customers, submitting requests to the FPSC to adjust these charges, monitoring the collateral for the bonds and taking certain actions in the event of non-payment by a customer. The indenture trustee's receipt of collections in respect of the nuclear asset-recovery charges, which will be used to make payments on bonds, will depend in part on the skill and diligence of the servicer in performing these functions.

DEF does not have prior servicing experience with nuclear asset-recovery charges, but is highly experienced in calculating and implementing similar rates and charges under various cost recovery statutes and billing those amounts to customers. DEF has over one hundred years of experience in collecting similar charges from its customers.

DEF will be entitled to receive an annual servicing fee in an amount equal to 0.05% of the aggregate initial principal amount of the bonds. This servicing fee will be payable in equal installments on each semi-annual payment date, in arrears. If DEF or any of its affiliates is not the servicer, the successor servicing fee may be up to 0.60% of the initial principal amount of the bonds unless a higher fee is approved by the FPSC.

In the event of a servicer default, the indenture trustee, at the direction of a majority of bondholders or at the direction of the FPSC, may terminate the rights and obligations of the servicer under the servicing agreement. However, replacement of the servicer would require the agreement of the indenture trustee and the administrative agents under DEF's accounts receivable sale programs.

Credit, Billing and Budget Billing

DEF is required to provide transmission and distribution service to all qualified customers. First time customers establishing residential electric accounts are generally required to pay a deposit as are customers that do not satisfy threshold credit score requirements.

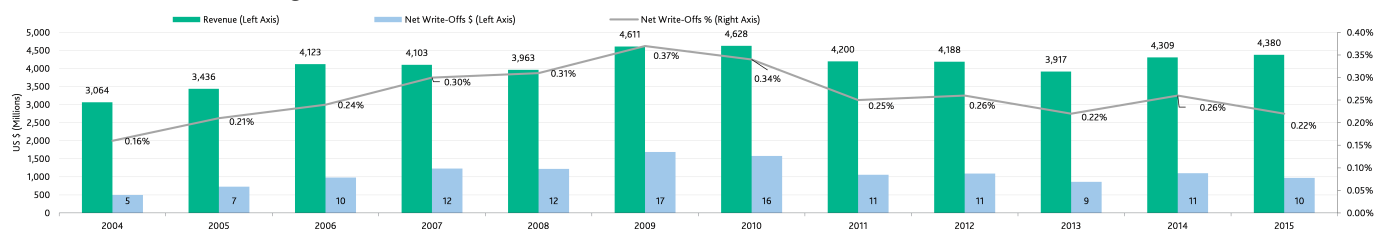
The amount of the deposit reflects the estimated use over a two-month period, which is the maximum DEF may collect by law. As a general rule, non-residential accounts require deposit coverage. Consumer credit is not used to determine credit worthiness on non-residential accounts.

DEF bills its customers once every 24 to 39 days and distributes approximately 85,000 bills on each business day to its customers. Approximately 6% of DEF's residential customers choose to be billed using DEF's budget billing program. For these customers, DEF determines and bills a monthly budget based on the last twelve months of billing history for each account. Budget billing does not affect the amount of nuclear asset-recovery charges that the servicer remits to the indenture trustee on a daily basis.

Bills are due 21 calendar days after the issue date at which time they are considered delinquent. For the year ended December 31, 2015, approximately 6% of total billed retail revenue became eligible for disconnect and 1% was disconnected. Approximately 87% of accounts disconnected for nonpayment ultimately make full payment and have service restored. Unpaid final bills are written off approximately 30 days after the final bill is issued.

Exhibit 6 below shows net write-offs since 2004, which have ranged from a low of 16bps of billed revenue in 2004 to a crisis period peak of 37bps in 2009. DEF's forecast is 26 bps, consistent with the post-crisis performance history.

Exhibit 6

Net Write-Offs as a Percentage of Billed Retail Revenues

Source: DEF

While more than 7.5% of customers are typically 30-59 days past due, by the third month most delinquencies are cured, with those still outstanding past 90 days well under 1% throughout the observation period. Exhibit 7 shows DEF customer delinquency data since 2005.

Exhibit 7

Delinquencies as a Percentage of Total Billed Revenues

	As of 2005	As of 2006	As of 2007	As of 2008	As of 2009	As of 2010	As of 2011	As of 2012	As of 2013	As of 2014	As of 2015
30-59 days	8.27%	8.51%	9.66%	8.41%	9.38%	7.82%	7.79%	7.59%	7.48%	7.79%	7.73%
60-89 days	0.92%	0.87%	1.12%	1.07%	0.78%	0.59%	0.57%	0.54%	0.59%	0.64%	0.57%
90+ days	0.52%	0.56%	0.90%	0.66%	0.51%	0.33%	0.22%	0.21%	0.28%	0.33%	0.33%
Total	9.71%	9.94%	11.68%	10.14%	10.67%	8.75%	8.58%	8.34%	8.35%	8.76%	8.63%

Source: DEF

Assets Analysis

Strong Service Area

This transaction benefits from the size and diversity of the ratepayer base within DEF's service area and the projected population growth and economic stability of the ratepayer base. During 2015, approximately 9% of DEF's total retail billed electric consumption was by industrial customers, approximately 31% was by commercial customers and approximately 52% was by residential customers, with other entities comprising approximately 8%. Exhibit 8 shows the percentage of total billed revenue attributable to each customer class since 2004.

Exhibit 8

Sales by Revenue Class (% of Total Billed Revenue)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	57.91%	57.70%	56.85%	57.21%	56.94%	57.34%	59.72%	58.18%	56.96%	58.49%	58.85%	59.43%
Commercial	27.66%	27.57%	27.89%	28.06%	28.39%	28.46%	27.01%	28.10%	28.85%	28.11%	27.81%	27.51%
Industrial	7.65%	7.73%	7.98%	7.34%	7.31%	6.70%	6.14%	6.40%	6.53%	6.12%	6.10%	5.91%
Streetlighting	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.04%	0.04%	0.05%	0.04%	0.04%	0.04%
Public Authority	6.73%	6.95%	7.22%	7.34%	7.31%	7.44%	7.09%	7.28%	7.61%	7.24%	7.20%	7.11%

Source: DEF

For the year ended December 31, 2015, the ten largest retail electric customers represented approximately 8.3% of DEF's retail kilowatt-hour sales. There are no material concentrations in the residential class. As of the closing date, no customer or group of related commercial or industrial customers will be obligated to pay more than 10% of the nuclear asset-recovery charges.

Exhibit 9

Top 10 DEF Customers

	Industry	Energy Usage (MWh)	% of Total Energy Usage	Revenues (\$000)	% of Total Revenues
1	Mining/Chemical Processing	691,591	1.79%	\$46,289	1.06%
2	Education	456,852	1.18%	\$37,972	0.87%
3	Retail Grocery	393,738	1.02%	\$35,619	0.81%
4	Mining/Chemical Processing	340,470	0.88%	\$23,343	0.53%
5	Education	252,072	0.65%	\$27,720	0.63%
6	Retail Trade	250,016	0.65%	\$24,409	0.56%
7	Stone/Clay/Glass	236,193	0.61%	\$15,771	0.36%
8	Education	201,586	0.52%	\$23,188	0.53%
9	Retail Grocery	199,997	0.52%	\$19,744	0.45%
10	Government	175,246	0.45%	\$16,124	0.37%
	Total	3,197,761	8.29%	\$270,179	6.17%

Source: DEF

Remote Risk of Severe Ratepayer Base Declines

The ratepayer base is sensitive to many macroeconomic factors, including service area population and household formation growth, expected disconnects due to use of self-generation, changes in the service area and potential municipalizations. We view the risks to the transaction of ratepayer base declines due to any of these factors to be low.

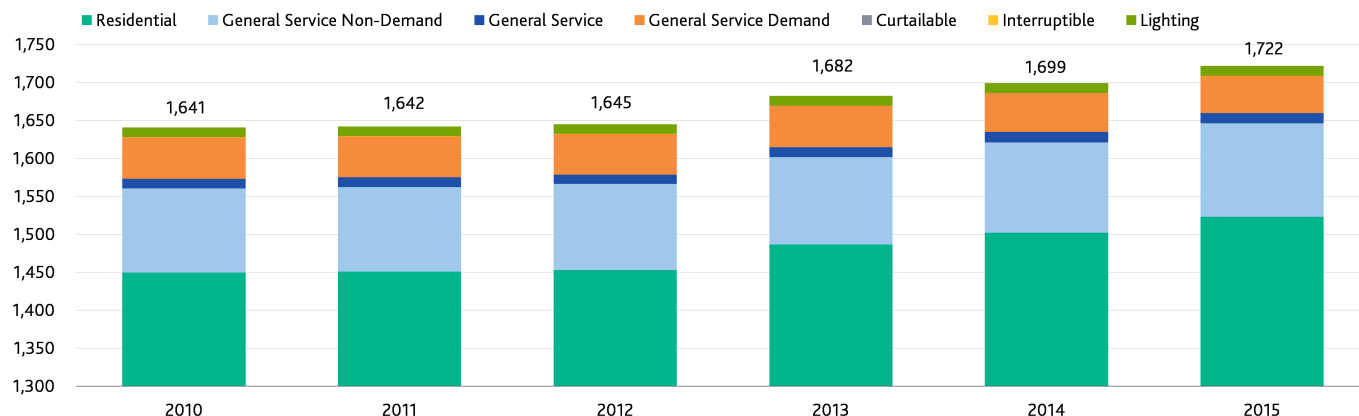
Population Growth

Florida's robust population trend is a benefit to the transaction. According to the Census Bureau, the state's population grew an average of 1,000 residents per day in 2015. This 1.8% increase was the largest since 2006 and the strongest in the South. Despite the rapid rise, population growth will likely accelerate further because the pace remains historically weak. In the 50 years before the Great Recession, annual population growth in the state exceeded last year's pace by 47 times. Florida should also expect faster expansion because its cities appeal to Hispanics—the nation's fastest growing ethnic group—and retiring baby boomers—the fastest-growing age

group in the U.S. In 2015, for the third consecutive year, The Villages, Central Florida's retiree haven, was the nation's fastest growing metro area in population. Exhibit 10 shows that growth in the average number of DEF retail electric customers since 2010.

Exhibit 10

Average Number of Retail Electric Customers



Source: DEF

Self-Generation

We look at the potential for increased use of self-generation as a minor headwind to the transaction. Self-generation, which primarily includes solar, reduces the ratepayer base and increases the burden of nuclear asset-recovery charges on other non-self-generating ratepayers. Based on existing legislation precluding the use of third-party owned solar equipment, DEF expects the estimated cost of self-generation for customers, combined with the practical obstacles to installing on-site generation, to limit self-generation from being installed by any meaningful number of customers within the service area. DEF forecasts self-generation to grow slowly over the next three years, and incorporates self-generation into its electricity consumption forecasts. The securitization law and financing order do not provide for exit fees to be charged to any customers that might leave the grid to self-generate.

Change in Service Area

We look at the risk of a ratepayer base decline due to a change in the service area to be minimal. The nuclear asset-recovery charge will be recoverable from all DEF customers taking transmission or distribution service from DEF. Thus, if the service area expands in the future, the new DEF customers would be subject to the nuclear asset-recovery charge on a going-forward basis. Pursuant to the financing order, any successor to DEF is required to perform all obligations and have the same rights under the financing order as DEF, including the collection of the nuclear asset-recovery charges from customers and payment of appropriate amounts to the issuer.

Municipalization

We view the risk to the ratepayer base due to municipalization as low due to the nonbypassability of the charges and the likelihood that even after a municipalization, DEF's transmission and distribution services will continue to be used. While multiple municipal utilities exist in Florida, DEF is unaware of any municipality that has municipalized, or attempted to municipalize, a portion of an investor-owned utility's service territory in the absence of an agreement. One municipality, the City of Winter Park, was municipalized pursuant to such an agreement. DEF previously had a franchise agreement that provided Winter Park with a unilateral purchase option at the expiration of the franchise agreement. In the instance of the Winter Park municipalization, DEF sought affirmative permission from the FPSC to be relieved of its obligation to serve the City of Winter Park, which the FPSC subsequently approved. Any municipality using DEF's transmission and distribution system following a municipalization will be considered a successor and its customers will be subject to the nuclear asset-recovery charge.

Storm Damage

We view the risk of reduced collections due to weather to be low, and substantially mitigated via the true-up mechanism. Hurricanes, tropical storms or wind storms may impact DEF's operations, temporarily interrupting transmission, distribution and consumption of

electricity, hence reducing the collections of nuclear asset-recovery charges. There might be longer-lasting weather-related adverse effects on residential and commercial development and economic activity in the DEF service area, which could cause the per-kWh nuclear asset-recovery charge to be greater than expected.

The only year with any significant loss of energy consumption due to natural disasters was 2004, when a series of three Hurricanes struck the DEF service area. The impacts came from "Charley" (Aug 13-20), "Frances" (Sep 4-10) and "Jeanne" (Sep 25-30). Estimated lost energy sales came from studying reduced levels of daily system requirements totaling 400,000 MWh over these three disasters. This represents about 1% of the total annual electric usage for 2004 (38,193 GWh).

Forecasting Electricity Consumption

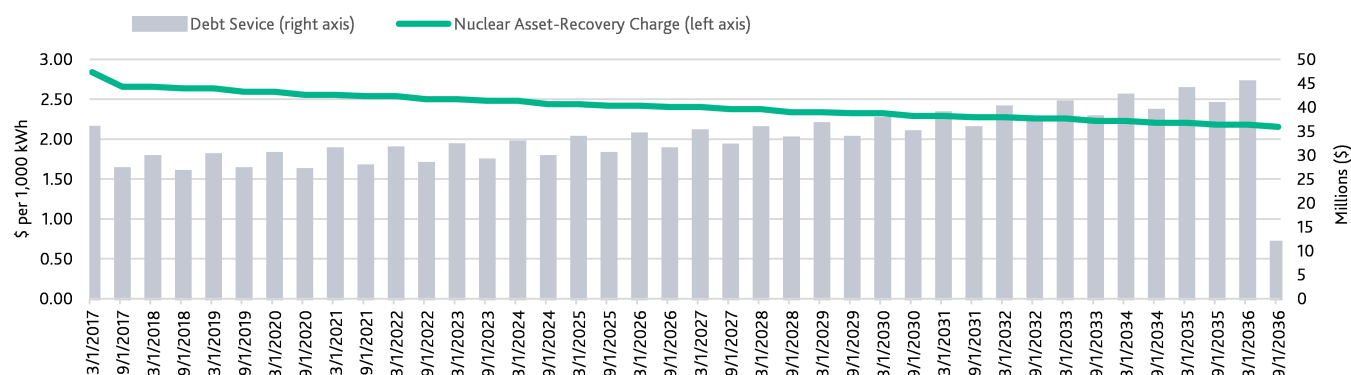
The nuclear asset-recovery charges are assessed based on forecasted customer usage. The amount and the rate of nuclear asset-recovery charge collections will depend in part on actual electricity consumption and the amount of collections and write-offs. If the servicer inaccurately forecasts electricity consumption or underestimates customer delinquency or write-offs when setting or adjusting the nuclear asset-recovery charges, there could be a shortfall or material delay in nuclear asset-recovery charge collections prior to the next true-up.

The forecast utilized in the proposed bond structure is the 2016 Ten Year Site Plan filed with the FPSC in April 2016. Internal forecasts are updated at least twice per year but are not filed with the FPSC. The DEF forecast of customers, energy sales, and peak demand applies both an econometric and end-use methodology. External sources of data include economic series from Moody's Analytics and State population data from the University of Florida's Bureau of Economic & Business Research. Internal company forecasts are used for projections of electricity price, and weather conditions. The forecast incorporates population and household trends, employment and production trends, technology and energy efficiency trends, and weather and climate trends. DEF has a more granular forecast for the phosphate industry, at the customer level, due to the high concentration of customers in this industry among DEF's industrial customer base.

Exhibit 11 shows the forecasted nuclear asset-recovery charge per 1,000 kWh and scheduled debt service payments.

Exhibit 11

Nuclear Asset-Recovery Charge and Debt Service (\$ per 1,000 kWh)*



*Preliminary and subject to change based on market conditions
Source: DEF; Moody's calculations

Forecast Variance

For there to be insufficient funds to pay ultimate principal and timely interest on the bonds, there would need to be unexpected, persistent and extensive drops in electricity consumption. Without an interim true-up adjustment, greater than 60% forecast variance would be needed leading up to any payment date to cause a payment default. Greater than 65% forecast variance would be needed in the first payment period to cause a payment default, assuming the servicer makes an interim true-up adjustment midway into the first payment period. By contrast the maximum forecast variance since 2011 has been less than 6%, as shown in Exhibit 12.

Exhibit 12

Annual Forecast Variance for Ultimate Electric Delivery (% of Forecast)

	2011	2012	2013	2014	2015
Residential	0.27%	-0.23%	-0.08%	2.14%	1.92%
Commercial	2.00%	0.82%	0.80%	1.40%	0.44%
Industrial	-3.09%	1.56%	-1.88%	3.87%	-3.25%
Public Authority	-2.40%	5.92%	0.50%	1.00%	-0.65%

Source: DEF

Cash Flow Analysis

We examined the cash flows that the nuclear asset-recovery charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the nuclear asset-recovery charges can go as a percentage of a 1,000 kWh residential customer's bill and also to illustrate how the nuclear asset-recovery charges behave under various stress scenarios of customer demand. Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm the level of the nuclear asset-recovery charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the nuclear asset-recovery charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. Such challenge is more likely the higher the charges, i.e., the more the economic incentive for a challenge, or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the nuclear asset-recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Even in our more extreme scenarios, the percentage of a residential customer's monthly bill devoted to the nuclear asset-recovery charge is less than 7%.

We looked at three scenarios:

Scenario Description and Projected Output**Base Scenario**

1. Electricity consumption as per the projections by DEF, which increases annually by a compounded 1 - 1.5%, through bond maturity
2. Implied net charge-offs of 0.2615%
3. Collection Curve projects 13.3% of collections within 30 days and 86.4% of collections between 30-60 days
4. Servicing fee is 0.05% on an annualized basis of the original principal amount of bonds so long as the servicer remains DEF or an affiliate. While a back-up servicer has not been retained, the issuer can increase servicing fees to 0.60% to attract one if needed.

Stress Scenario 1

1. Electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers
2. Annual net charge-offs are the same as in base case
3. Collection curve is the same as in base case
4. Loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year
5. Replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case

Stress Scenario 2

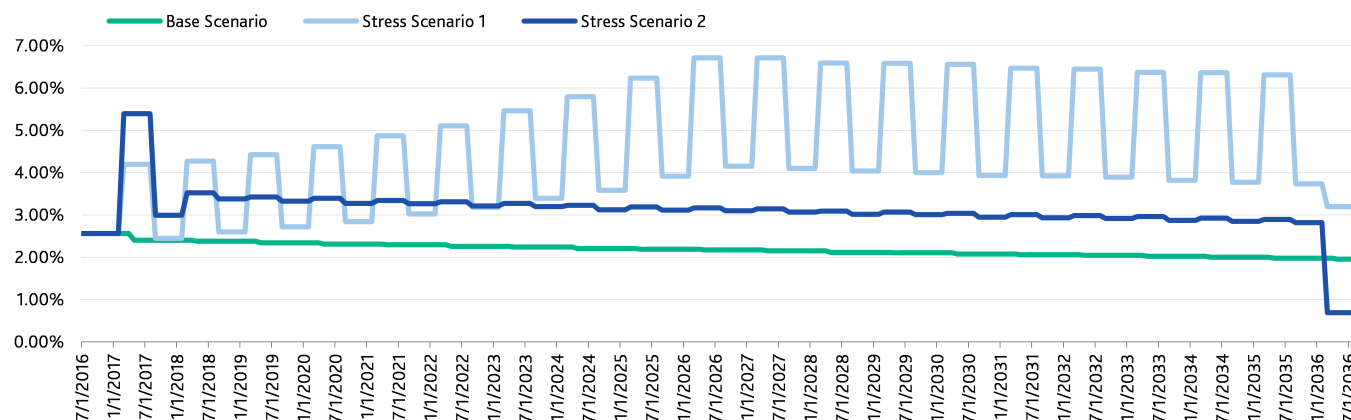
1. Electricity consumption is reduced by 25% permanently against the first year base case projection

2. Annual net charge-offs the same as in base case
3. Collection curve is the same as in base case
4. Servicing fee and all other fees the same as in base case

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 13 shows the projected nuclear asset-recovery charge as a percentage of a 1,000 kWh residential customer's total bill, and Exhibit 14 shows the projected nuclear asset-recovery charges for customers per 1,000 kWh over the securitization's life. The periodic variance in the charges under the stress scenarios is due to the semiannual true-ups capturing seasonality in electricity usage.

Exhibit 13

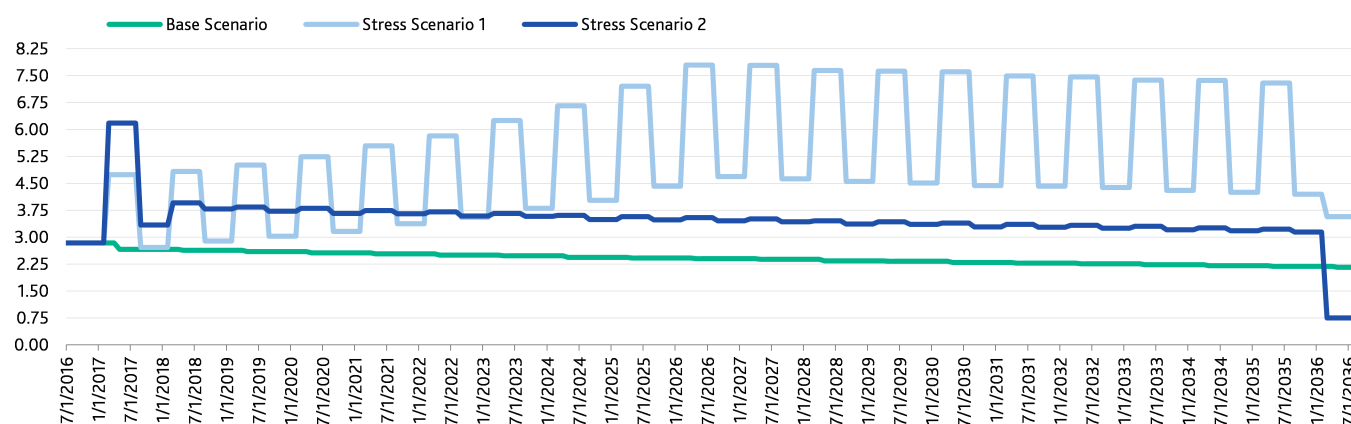
Nuclear Asset-Recovery Charge as a Percentage of a 1,000 kWh Customer's Total Bill



Source: DEF; Moody's calculations

Exhibit 14

Nuclear Asset-Recovery Charge (\$ per 1,000 kWh)



Source: DEF; Moody's calculations

Comparables

As shown in Exhibit 15, stress scenario 1 is more stressful and results in a peak nuclear asset-recovery charge equal to about 6.94% of a 1,000 kWh per month customer's bill. This is low compared to other utility cost recovery deals.

Exhibit 15

Maximum Recovery Charge Comparison (% of a 1,000 kWh Customer's Bill)

Deal name	Base	Stress1	Stress2
DEF 2016-1	2.65%	6.94%	4.73%
UDSA 2016A	7.21%	16.04%	10.40%
UDSA 2015	7.00%	12.32%	7.89%

Source: Moody's

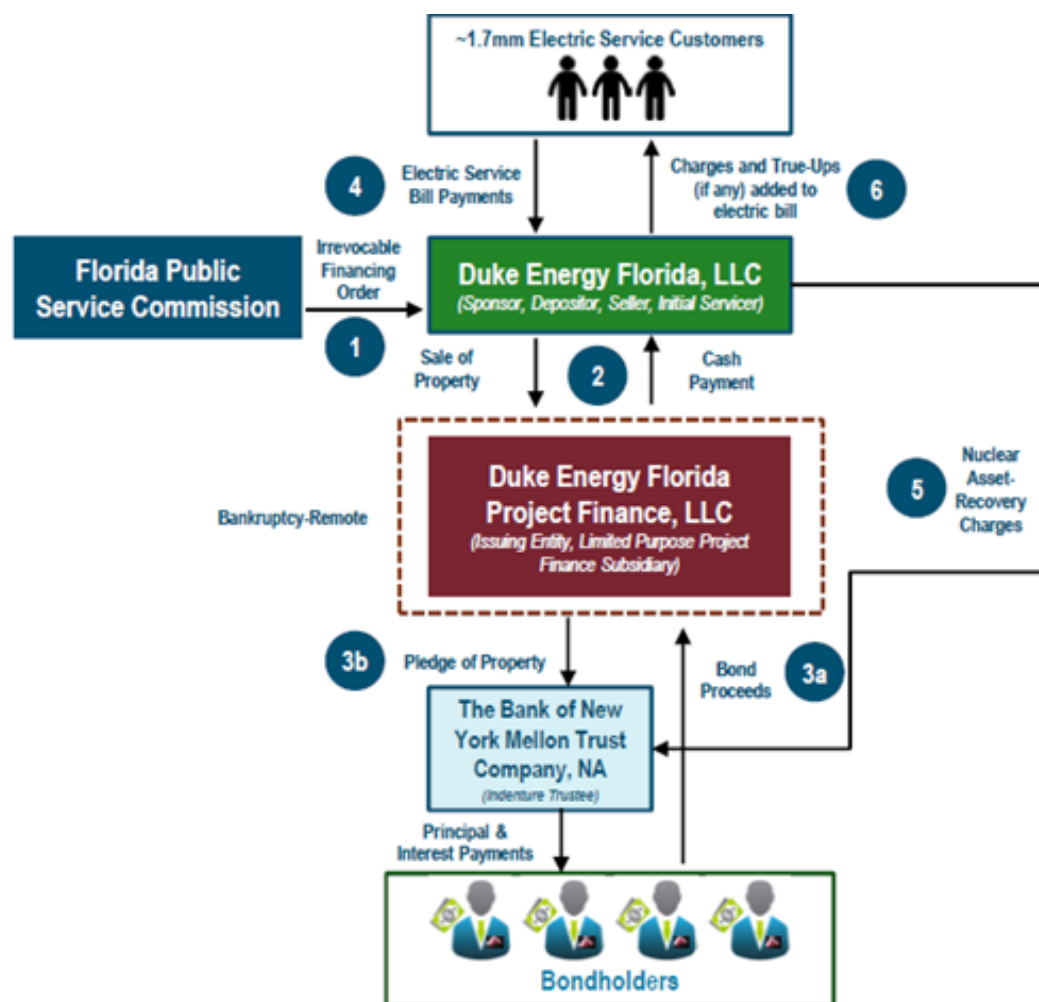
Securitization Structure Overview

On the closing date, DEF will sell the nuclear asset-recovery property to the issuer pursuant to a sale agreement between the issuer and DEF. DEF will service the nuclear asset-recovery property pursuant to a servicing agreement between the issuer and DEF.

Securitization Structure Description**Structural Diagram**

Exhibit 16 below illustrates the relationships between the transaction parties and bondholders.

Exhibit 16

Structural Diagram

Source: DEF

1. FPSC issues financing order, permitted under state statute, that creates nuclear asset-recovery property in the hands of DEF
2. Via a true sale, DEF transfers the nuclear asset-recovery property to the issuer in exchange for cash payment
3. (a) Nuclear asset-recovery bonds issued in exchange for cash payment from bondholders (b) Nuclear asset-recovery property is pledged to indenture trustee for benefit of the bondholders
4. Electric utility customers pay charge on electricity bills on joint and several basis
5. Payments from electric utility customers used to pay principal and interest on the bonds
6. At least semi-annually, and, as frequently as monthly (any time), charge on all electricity customers adjusted to whatever level necessary (i.e., not subject to cap) to ensure timely principal and interest payments on the bonds

Detailed Description of the Structure

Credit Enhancement

Credit enhancement for the bonds will be provided by the true-up mechanism, as well as by the capital subaccount. The primary purpose of the excess funds subaccount is not to provide credit enhancement for the bonds but to hold funds collected in amounts that were more than necessary to pay current debt service. However, amounts in the excess funds subaccount may be used to make debt service payments on the bonds when needed.

Capital Subaccount

On or before the date of issuance of the bonds, DEF will make a capital contribution to the issuer in an amount not less than 0.5% of the initial principal amount of the bonds, which will be deposited in the capital subaccount. Under the financing order, DEF will be entitled to a return on this capital contribution equal to the rate of interest on the latest maturing bond and payable according to the priority of payment set forth in the indenture and the series supplement.

Cash Commingling

The servicer is entitled to commingle the nuclear asset-recovery charges that it receives with its own funds until the funds are remitted to the indenture trustee on a daily basis. The securitization law provides that the priority of a lien and security interest is not impaired by the commingling of funds arising from nuclear asset-recovery charges with other funds.

The servicer will remit nuclear asset-recovery charges based on estimated collections using a weighted average balance of days outstanding on DEF's retail bills. Nuclear asset-recovery charge collections remitted will represent the charges estimated to be received for any period based upon the average days outstanding and an estimated system-wide write-off percentage.

No less often than annually, the servicer and the indenture trustee will reconcile remittances of estimated nuclear asset-recovery charge collections with actual payments received. To the extent the remittances of estimated payments exceed the amounts that should have been remitted, the servicer will be entitled to withhold the excess amount from any subsequent remittance. To the extent the remittances of estimated payments are less than the amount that should have been remitted, the servicer will remit the amount of the shortfall to the indenture trustee within two business days.

Payment Priority

On each payment date, the indenture trustee will pay all amounts on deposit in the general subaccount of the collection account in the following order of priority:

1. payment of the indenture trustee's fees, expenses and outstanding indemnity amounts in an amount not to exceed annually \$500,000 in the then current calendar year;
2. payment of the servicing fee plus any unpaid servicing fees from prior payment dates;
3. payment of the administration fee to the extent due on that payment date and of the fees of our independent manager plus any unpaid administration or management fees from prior payment dates;

4. payment of all of our other ordinary periodic operating expenses;
5. payment of the interest then due, including any past-due interest;
6. payment of the principal required to be paid on the final maturity date for each series or as a result of acceleration upon an event of default;
7. payment of the principal then scheduled to be paid in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal, paid pro rata among the bonds if there is a deficiency;
8. payment of any of our remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents;
9. replenishment of any amounts drawn from the capital subaccount;
10. release to DEF of an amount equal to the rate of return on the amount contributed to the capital subaccount, including any portion of such rate of return for any prior payment date that has not yet been paid, so long as no event of default has occurred and is continuing; and
11. allocation of the remainder collected, if any, to the excess funds subaccount for future payments.

Events of Default

An event of default with respect to the bonds is defined in the indenture as any one of the following events:

1. a default for five business days in the payment when due of any interest on any bond;
2. a default in the payment of the then unpaid principal with respect to any series on the final maturity date for that series;
3. a default in the observance or performance of any covenants or agreements made by the issuer in the indenture or the series supplement (other than defaults described above) which continues for 30 days;
4. any representation or warranty made by the issuer having been incorrect in any material respect as of the time made, and such breach not having been cured within 30 days;
5. certain events of bankruptcy, insolvency, receivership or liquidation with respect to the issuer; or
6. a breach by the State of Florida or any of its agencies (including the FPSC), officers or employees that violates the pledge of the State of Florida.

Issuance of Additional Bonds

As authorized by the financing order, the issuer's organizational documents and the transaction documents give the issuer authority and flexibility to issue additional nuclear asset-recovery bonds in future transactions, with the approval of the FPSC. Each series of nuclear asset-recovery bonds that may be issued will be backed by separate nuclear asset-recovery property the issuer acquires for the separate purpose of repaying that series. Any new series of such securities may include terms and provisions that would be unique to that particular series of nuclear asset-recovery bonds. However, the issuer may not issue additional nuclear asset-recovery bonds unless the rating agency condition for the bonds has been satisfied.

Asset Transfer, True Sale and Bankruptcy Remoteness

The securitization law provides that an electric utility's transfer of nuclear asset-recovery property is a true sale and is not a pledge or of a secured transaction relating to the electric utility's right, title and interest in the nuclear asset-recovery property (other than for federal and state income and franchise tax purposes) and that legal and equitable title passes to the transferee, if the agreement governing that transfer expressly states that the transfer is a sale or other absolute transfer.

The issuer's limited liability company agreement requires that it have at least one independent manager, whose selection and replacement will be subject to ratification by the FPSC. The limited liability company agreement does not permit the issuer to engage in any activities not directly related to purchasing and owning the nuclear asset-recovery property and issuing one or more series of nuclear asset-recovery bonds. The list of permitted activities set forth in the limited liability company agreement may not be altered,

amended or repealed without the affirmative vote of a majority of the managers, which vote must include the affirmative vote of the independent manager.

Sponsor and Seller

DEF is the sponsor of the transaction and the seller of the nuclear asset-recovery property. DEF, a Florida limited liability company, is a regulated public utility primarily engaged in the generation, transmission, distribution, and sale of electricity in portions of Florida. DEF is an indirect, wholly-owned subsidiary of Duke Energy Corporation, one of the largest regulated utility holding company in the US.

DEF is subject to the jurisdiction of the Florida Commission with respect to retail utility rates, accounting, utility services, certain facilities, certain asset transfers, certain corporate mergers and other matters. DEF is subject to the jurisdiction of the Federal Energy Regulatory Commission under the Federal Power Act with respect to acquisitions, operations and disposals of certain assets and facilities, services provided and rates charged, conduct among affiliates and other matters, and its nuclear power plant is also subject to the jurisdiction of the Nuclear Regulatory Commission.

Administrator

DEF will provide or arrange for the provision of administrative services to the issuer pursuant to an administration agreement, including services relating to the preparation of financial statements, required filings with the SEC, any tax returns the issuer might be required to file, qualifications to do business, and minutes of the issuer's managers' meetings. DEF, as administrator, will be entitled to receive an annual administration fee of \$50,000 payable annually, in arrears. The administrator may not resign or be removed without satisfaction of the rating agency condition.

Securitization Structure Analysis

The Series A bonds are a relatively simple sequential structure without subordination and the capital subaccount provides sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between the semi-annual true-ups.

Methodology and Monitoring

The principal methodology used in this rating was [Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges](#) published in June 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moodys.com.

In monitoring this transaction, we apply the key components of our methodology. More specifically, we analyze, whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialize, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

We also follow the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of DEF (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

Thus changes in our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating

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REPORT NUMBER 1031259

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

29 July 2016

Pre-Sale

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Estimated Closing Date

June 2016

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Utility Debt Securitization Authority Restructuring Bonds, Series 2016B

Long Island Power Authority-Sponsored Utility Cost Recovery Bonds

Capital Structure

Exhibit 1

Provisional (P) Ratings*

Series	Provisional Rating	Expected Amount	Tax Status	Coupon	Payment Frequency	Expected Maturity	Legal Final Maturity**
Series 2016B	(P)Aaa (sf)	\$475,000,000	Tax Exempt	Fixed	Semi-annual	12/15/2033	12/15/2035

The ratings address the expected loss posed to investors by the legal final maturity. In our opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Our ratings address only the credit risks associated with the transaction. Other non-credit risks are not addressed, but may have a significant effect on yield to investors.

* Principal amounts and legal maturity dates are preliminary and subject to change

** Reflects the latest legal maturity date among the tranches in the series

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Summary Rating Rationale

We have assigned provisional ratings to the single series of bonds (Series 2016B bonds, or the bonds) that Utility Debt Securitization Authority (the issuer) will issue. The Long Island Power Authority ("the Authority", Baa1 stable), which is a corporate municipal instrumentality and a political subdivision of the State of New York, is sponsoring the transaction. The Authority wholly owns the Long Island Lighting Company (doing business as "LIPA", the servicer), which provides electric transmission and distribution services in most of Nassau and Suffolk counties and a portion of Queens county. New York State legislation formed the issuer to securitize a special charge (the restructuring charge) imposed on the Authority's customers' utility bills. The Authority will use the proceeds of the securitization to retire a portion of its outstanding debt. The Series 2016B bonds will be the fourth utility cost recovery bonds sponsored by the Authority since 2013.

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 28 July 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

The primary collateral backing the Series 2016B bonds is the irrevocable contract right to impose, bill and collect nonbypassable consumption-based restructuring charges from all existing and future retail electric customers taking electric transmission or distribution service within the Authority's service area (the restructuring property). New York State legislation, along with an irrevocable financing order adopted by the Authority on June 26, 2015, authorizes the creation of the restructuring property.

Our provisional ratings on the bonds reflect our assessment of (1) the strength of the State of New York's legislation including the State's non-impairment pledge, which strongly protects the restructuring property backing the bonds; (2) the strength of the Authority's irrevocable financing order authorizing the creation of the restructuring property; (3) the size, stability and diversity of the ratepayer base in the Authority's service area; (4) the ability and experience of LIPA, who is responsible for the billing and collection of the restructuring charges, as the initial servicer of the restructuring property, and of PSEG Long Island LLC (PSEG-LI), who will perform LIPA's key servicing functions; and (5) the credit enhancement supporting the bonds in the form of a mandatory uncapped true-up mechanism that periodically adjusts the restructuring charges to ensure timely bond payments until the bonds are repaid in full, a non-declining operating reserve account and a debt service reserve account.

Credit Strengths

Strength of legislation and financing order: The State of New York's legislation (Part B of the LIPA Reform Act, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on August 14, 2015, permits the securitization and strongly protects the restructuring property securing the bonds. Similar to other utility cost recovery charge securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of New York pledges to bondholders that it will not (1) take or permit any action that limits, alters or impairs the value of restructuring property; or (2) reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full, except as required by the adjustment mechanism described in the restructuring cost financing order (the state pledge). In addition, the securitization and financing order contain the typical true-sale and security interest provisions.

The Authority's irrevocable financing order authorizes the Authority to recover specified costs of retiring its corporate debt by collecting restructuring charges. The restructuring property grants the issuer the irrevocable right to impose, bill and collect irrevocable, nonbypassable restructuring charges based on electricity usage, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full. Nonbypassable refers to the requirement that the charges be levied on all of the Authority's existing and future retail electric customers receiving transmission and distribution services in its service area, including customers of any Authority successor or assignee.

True-up adjustment mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts restructuring charges annually and, if necessary, semiannually, to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments at any time if the servicer deems necessary to ensure timely bond payments. The servicer may also elect to perform a voluntary mid-year true-up adjustment to decrease charges to customers to correct for overcollections in any year (in addition to the requirement that the servicer perform a mandatory mid-year adjustment to increase charges to customers to correct for undercollections). This voluntary mid-year adjustment helps reduce the volatility of the restructuring charge to customers. The inclusion of an operating reserve account and a debt service account provide sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between true-ups.

Affluent ratepayer base: The size, economic stability and diversity of the ratepayer base in the Authority's service area are credit strengths. The service area is fixed by the securitization law and primarily includes the Long Island counties of Nassau and Suffolk, which are two of the most affluent counties in the United States. The service area primarily includes a mix of residential customers (54% by revenue) and commercial customers (43% by revenue).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Experienced servicer: LIPA has considerable prior servicing experience with restructuring charges, including acting as servicer for the Authority's three outstanding utility cost recovery charge securitizations.

Although LIPA is the named servicer for this securitization, PSEG Long Island LLC (PSEG-LI, unrated), a subsidiary of Public Service Enterprise Group Incorporated (Baa2, positive), will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among others. PSEG-LI currently performs these same functions for the three outstanding utility cost recovery charge securitizations sponsored by the Authority. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

Credit Challenges

Challenges to securitization law and financing order: Potential state and federal legislative and regulatory actions could weaken the strength of the legal protections of the restructuring property. However, we view this risk as remote. New York does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to repeal or amend the securitization law, or for the Authority to amend or revoke the financing order, would be through a legislative action which would violate the state pledge. The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered. Several past challenges to securitization laws such as this in other jurisdictions have been unsuccessful.

Potential for insufficient collections: Collections arising from the restructuring property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration, self-generation and storm damage. The Authority's estimates of market demand, energy prices and growth within its service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, by which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments are required to occur annually and can occur semi-annually and at the discretion of the servicer on an interim basis as needed.

Relatively high restructuring charge: The Authority expects the securitization's initial restructuring charge to represent around 2.55% of the total monthly bill that a 1,000 kilowatt hour (kWh) residential customer in the Authority's service area will receive as of June 15, 2017. The initial restructuring charge for the 2016B transaction, combined with the current restructuring charge for the 2013, 2015 and 2016A transactions, is expected to represent approximately 7.8% of a 1,000 kWh residential customer's bill. This percentage charge is relatively high compared to charges in other utility cost recovery bond transactions. For context, the three most recent utility cost recovery bond issuances we rated, Duke Energy Florida Project Finance, LLC, Entergy New Orleans Storm Recovery Funding I, LLC, and the Louisiana Utilities Restoration Corporation Project/ ELL, had a cumulative (including prior utility cost recovery charges to the same customer base) initial recovery charge amounting to 2.5%, 2.5%, and 3.7% of a 1,000 kWh residential bill, respectively. A high cumulative recovery charge could incentivize a legal challenge to the restructuring charges or the securitization law, or could increase political pressure to rescind or change the securitization law through legislation. This concern is mitigated by the Authority's securitization offset rider, which reduces the Authority's delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

Key Characteristics

Asset Characteristics (as of 15 June 2016)

Exhibit 2

Asset Characteristics

Assets:	Restructuring property, which consists of all rights and interest of the issuer under the financing order, including the right to impose, bill, collect and receive irrevocable, binding, nonbypassable charges based on the usage of electricity from all existing or future customers receiving transmission or distribution service from the Authority or its successors or assignees
Service Area:	The Authority's service area covers approximately 1.1 million residential, commercial customers in Nassau and Suffolk counties* and the Rockaway Peninsula

*Excludes the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Securitization Structure Characteristics

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Tax-exempt, fixed rate bonds with semi-annual payments
Amount:	\$475,000,000*
Structure:	Discrete trust
Credit Enhancement:	Mandatory uncapped true-up mechanism; operating reserve account (0.5%); debt service reserve account (1.5%)
Transaction Parties	
Sponsor/Depositor/Servicer:	Long Island Power Authority (Baa1 stable)
Issuer:	Utility Debt Securitization Authority
Transmission and Distribution System Manager:	PSEG Long Island LLC (unrated)
Trustee:	The Bank of New York Mellon Trust Company, National Association (Aa1/Aa2 stable, a1)**

*Preliminary and subject to change based on market conditions

**The bank ratings shown in this report are the banks' deposit ratings and senior unsecured debt ratings and outlooks, and their baseline credit assessments

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Assets Overview

The collateral for this pool is the restructuring property, consisting of the irrevocable contract right to impose, bill and collect nonbypassable consumption-based restructuring charges from all existing and future retail electric customers taking electric transmission or distribution service within the Authority's service area.

The bonds are also secured by funds on deposit in the collection account, including the debt service reserve subaccount and the excess funds subaccount, by the issuer's rights under the various transaction documents, by the issuer's right to compel the servicer to file for and obtain true-up adjustments, and by all payments on or under the pledged collateral and by all proceeds with respect to the pledged collateral.

Assets Description

The Securitization Law

The purpose of the securitization law is to create the issuer and allow the Authority to finance the retirement of a portion of its outstanding debt through the issuance of restructuring bonds by the issuer, resulting in savings to the Authority's customers on a net present value basis. The securitization law gives the Authority the right to impose restructuring charges, which is the key asset backing this securitization.

The securitization law, coupled with the adoption of additional financing orders, authorizes the Authority to create additional restructuring property as collateral for the issuance of bonds. The Authority will use this issuance to retire a portion of its outstanding debt and financing costs, including the costs of issuing, supporting and servicing the bonds. The current financing order allows for an aggregate amount not to exceed \$4.5 billion (inclusive of the previously-issued bonds: \$2,022,324,000 in 2013, \$1,002,115,100 in 2015 and \$636,770,000 in 2016). After the Series 2016B issuance, the issuer has capacity issue an additional \$363.8 million of restructuring bonds under the initial authorization.

Similar to other utility cost recovery charge securitizations, this securitization benefits from the securitization law's inclusion of a state non-impairment pledge, subject to the true-up mechanism, that is incorporated into the securitization documents for the benefit of the trustee on behalf of bondholders. A breach of such pledge triggers an event of default under the indenture.

The Financing Order

On June 26, 2015, the Authority adopted Financing Order No. 4 (the financing order), together with Financing Order No. 2 and Financing Order No. 3; all of which were approved by the New York Public Authorities Control Board on July 15, 2015. On August 14, 2015, the financing orders became irrevocable, final and non-appealable. Each financing order authorizes restructuring bonds that will be secured by a separate restructuring property that would be created pursuant to that financing order.

Similarly, the Series 2013 restructuring bonds that the issuer issued pursuant to Financing Order No. 1 are secured by the 2013 restructuring property, the Series 2015 restructuring bonds that the issuer issued pursuant to Financing Order No. 2 are secured by the 2015 restructuring property and the Series 2016A restructuring bonds that the issuer issued pursuant to Financing Order No. 3 are secured by the 2016A restructuring property.

The issuer is issuing the bonds pursuant to the financing order, which authorizes: 1) the creation of the restructuring property; 2) the Authority to sell the restructuring property to the issuer under the financing order (the restructuring property is created simultaneous with its sale to the issuer); 3) the imposition, billing and collection of restructuring charges on, to and from the customers in the service area; 4) the issuance of the bonds by the issuer; 5) the issuer to use the bond proceeds to purchase the restructuring property from the Authority and pay upfront financing costs; and 6) the Authority to use the proceeds of the sale of the restructuring property to retire a portion of its outstanding debt.

The securitization law provides that the financing order is irrevocable and is not subject to modification or termination. The financing order acknowledges the state pledge.

Prior to the issuance of the bonds, the financing order requires the servicer to file an issuance advice letter with the Authority setting forth: 1) the expected savings to customers from the securitization; 2) the estimated ongoing financing costs; 3) the initial restructuring charge; and 4) the final terms of the bonds. The financing order authorizes a designee of the Authority to review and approve the

issuance advice letter for the purpose of confirming that the stated terms are consistent with the financing order. The designee's approval will be final and incontestable.

The State Pledge

The securitization law includes a pledge from the State of New York to the bondholders that it will not (1) take or permit any action that limits, alters or impairs the value of restructuring property; or (2) reduce, alter or impair transition charges that are imposed, collected and remitted for the benefit of the owners of restructuring bonds, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of restructuring bonds, all ongoing financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full, except as required by the adjustment mechanism described in the restructuring cost financing order.

Any action of the New York legislature adversely affecting the restructuring charges or the ability to impose, charge or collect the restructuring charges would likely require the State of New York to pay just compensation under the "takings clause" of the United States and State of New York Constitutions.

The state pledge provides protection to bondholders. To the extent the Authority or the State of New York have obligations under the financing order (e.g. to file for true-up adjustments), the securitization law provides that the owner of the restructuring property (the issuer), or the trustee representing the bondholders, are expressly permitted to bring actions for enforcement of the financing order.

The Restructuring Charges

Under the financing order, the servicer (on behalf of the issuer as owner of the restructuring property) has the right to impose, bill and collect irrevocable and nonbypassable restructuring charges from all of the Authority's customers in an amount sufficient to: 1) pay interest on the bonds when due and principal of each tranche of bonds according to the related expected amortization schedule; 2) pay the fees and expenses of the securitizations' service providers; and 3) replenish the operating reserve and debt service reserve subaccounts to the required levels.

There is no cap on the level of restructuring charges that the servicer may impose on ratepayers through the true-up adjustment mechanism. This is designed to ensure the expected collection of amounts sufficient to timely pay the amounts specified above. Accordingly, the restructuring charges may continue to be imposed and collected until the bonds are repaid in full, without any specified time limit.

The financing order authorizes the servicer to collect restructuring charges directly from the Authority's customers. The restructuring charge will be the same for all customer classes. Under the securitization law, the charges and any adjustments thereto are not subject to review or regulation by the New York State Department of Public Service, the staff arm of the New York Public Service Commission.

The restructuring charges are nonbypassable; "nonbypassable" as set forth in the securitization law and the financing order means that the customer is obligated to pay the restructuring charges (and may not legally avoid payment of such charges) as long as such customer is connected to the transmission and distribution (T&D) system assets (the Authority's delivery system, which includes transmission and distribution lines and substations) and is taking electric delivery service in the service area, even if such customer produces its own electricity or purchases electric generation services from a provider of electric generation services other than the owner of the T&D system assets and even if the Authority no longer owns the T&D system assets. Thus, the only way customers can avoid restructuring charges is if they are fully cut off from the T&D system assets.

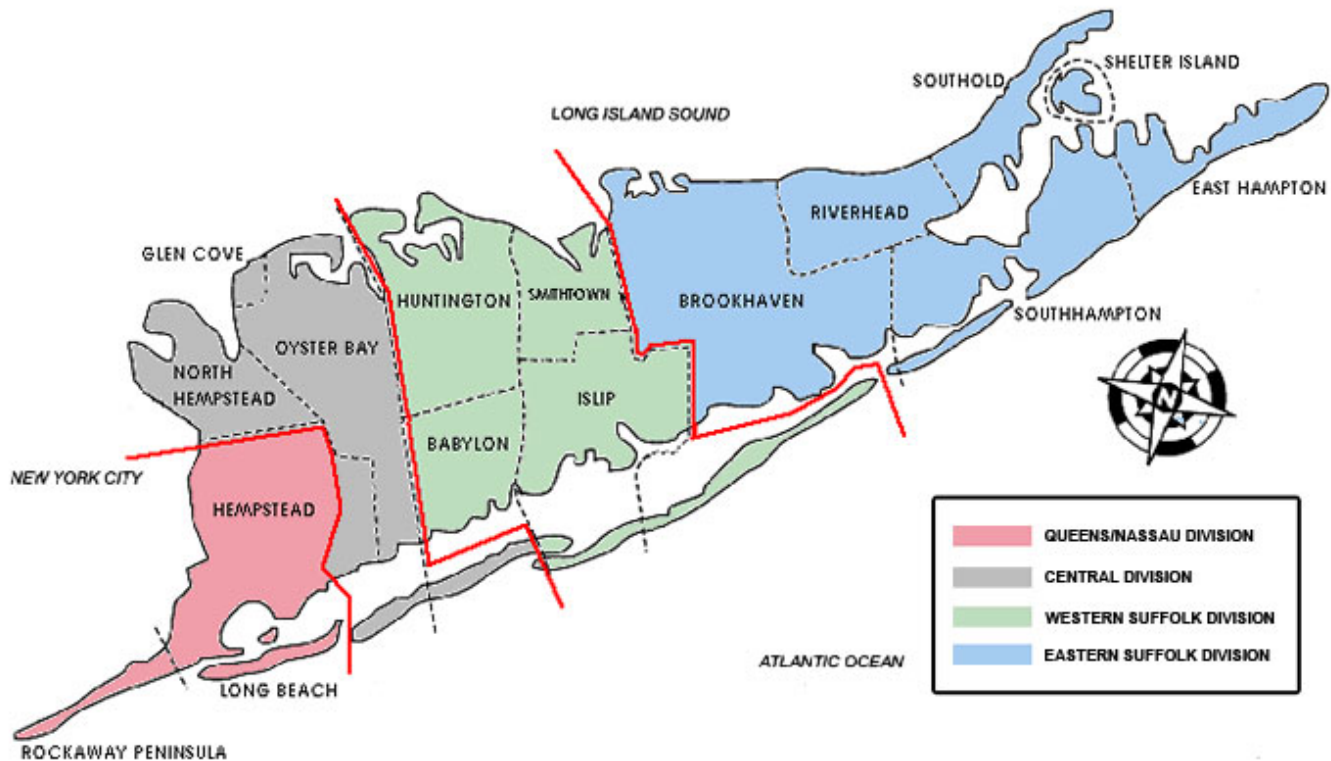
The Service Area

The Authority provides electric T&D services in its service area which includes two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. The population of the service area is around three million.

The securitization law defines the service area as the geographical area within which the Authority provided electric T&D services as of July 29, 2013. Thus, the service area is fixed by the legislation.

As of December 31, 2015, the service area included approximately 1.1 million customers. In 2015, retail electric usage was 54.4% residential, 43.5% commercial, 0.7% street lighting and 1.5% other public authorities. Exhibit 4 below shows the service area.

Exhibit 4

LIPA Service Area

Source: PSEG-LI website

Statutory Uncapped True-Up Adjustment Mechanism

Under the securitization law and the financing order, the servicer will adjust the restructuring charges through the securitization's true-up mechanism to ensure timely bond payments. The adjustments to the charges will continue until the bonds are repaid in full and there is no cap on the amount of charges that may be imposed on customers resulting from the adjustments.

The mechanics of the true-up adjustments are as follows:

1. Initial true-up adjustment to the restructuring charges will be made on November 15, 2016
2. Standard mandatory annual adjustments to the restructuring charges to correct for any over-collections or under-collections to date and anticipated to be experienced up to the date of the next annual adjustment and to ensure that the expected collections are sufficient to timely pay interest and scheduled principal (according to the expected amortization schedule) on the bonds and all other ongoing financing costs
3. Mandatory semiannual adjustments to the restructuring charges only if the servicer forecasts that charge collections will be insufficient to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
4. Voluntary semiannual adjustments to decrease the restructuring charges to customers if the servicer forecasts that charge collections will be greater than the amount required to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs

5. More frequent adjustments at any time without limits as to the frequency to ensure that the expected charge collections are adequate to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
6. After the last scheduled maturity date of the bonds (of any series), quarterly adjustments to ensure that charge collections will be sufficient to timely pay interest and principal on the next payment date, in addition to all other ongoing financing costs; the adjustments will be set at levels estimated to generate revenues sufficient to fully repay the bonds on the next payment date, plus all other ongoing financing costs

All adjustments will be designed to cause: 1) the outstanding principal balance of the bonds (or any series of bonds) to be equal to the scheduled balance (based on the expected amortization schedule); 2) the amount in the operating reserve and debt service reserve subaccounts to be equal to the required levels; and 3) with respect to the annual true-up only, any amount in the excess funds subaccount to be equal to zero by the payment date immediately preceding the effective date of the next annual adjustment.

Servicing

LIPA, acting as servicer under the servicing agreement, or any successor servicer as the financing order provides, will be responsible for servicing the restructuring property, including: 1) obtaining meter reads; 2) forecasting electricity usage; 3) calculating, billing and collecting the restructuring charges; 4) processing, accounting for and depositing charge collections and making periodic remittances; 5) calculating and implementing the true-up adjustments to the restructuring charges; 6) investigating and handling delinquencies and selling defaulted or written off accounts; 7) responding to inquiries from customers, the Authority, or any governmental authority regarding the restructuring property and the restructuring charges; and 8) furnishing periodic reports and statements.

Although LIPA is the named servicer for this securitization, PSEG-LI, a subsidiary of Public Service Enterprise Group Incorporated (PSEG, Baa2 positive), will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting the restructuring charges, meter reading and forecasting electricity usage, among others. PSEG is a publicly traded energy and energy services company. As of December 31, 2015, it had total assets of approximately \$37.5 billion, last twelve months revenues of approximately \$10.4 billion; and employed approximately 13,000 people. PSEG is the parent holding company of PSEG Power LLC, New Jersey's largest wholesale merchant generator with approximately 13.1 GW of capacity; Public Service Electric and Gas Company, New Jersey's largest regulated electric and gas T&D utility; and PSEG Energy Holdings L.L.C., which owns a portfolio of leveraged leases and is also pursuing investments in renewable generation.

There is no named backup servicer at closing though the financing order allows for a replacement servicer if the current servicer defaults in its performance obligations. In addition, the financing order allows the servicing fee to step-up from 0.05% to 0.60% of the initial principal balance of the bonds if LIPA is replaced as servicer by a successor servicer not affiliated with the owner of the T&D system assets.

Billing

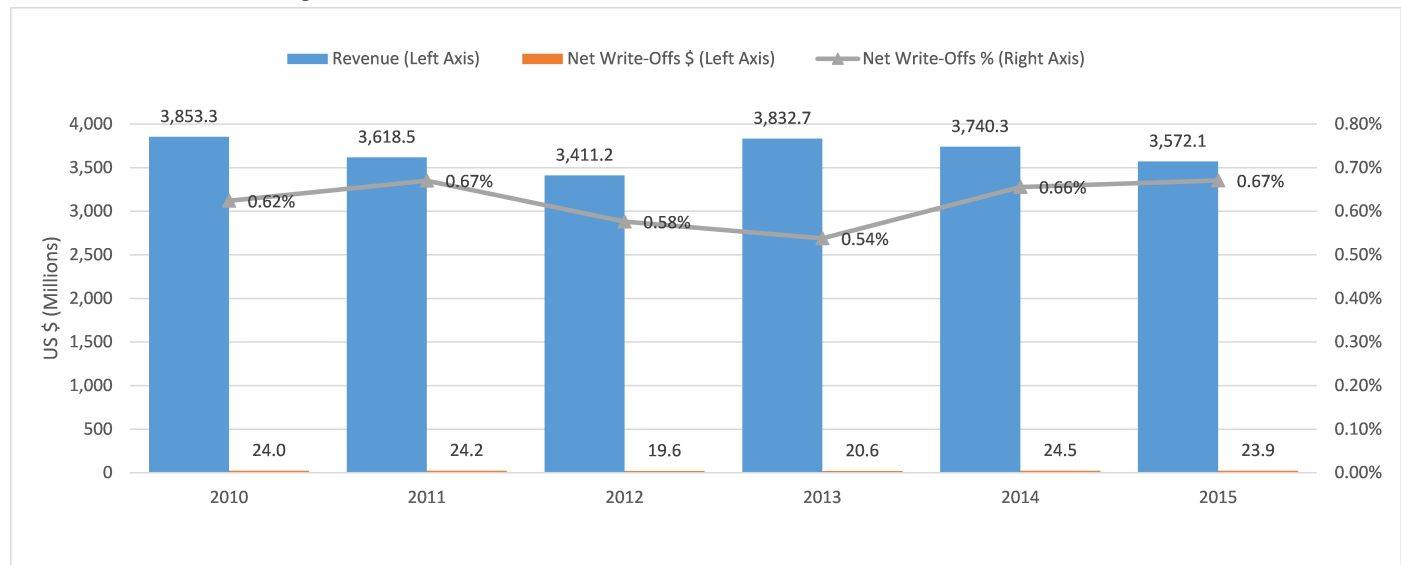
PSEG-LI will perform LIPA's duties of billing and collecting the restructuring charges, meter reading and forecasting electricity usage. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

Under the securitization law and the financing order, if and to the extent that third parties are allowed to bill and/or collect any restructuring charges in the future while the bonds are outstanding, LIPA, any successor servicer, and any owner of the T&D system assets will take steps to ensure nonbypassability and minimize the likelihood of default by third-party billers. Further, LIPA and any successor servicer will not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the current ratings on the bonds.

The provision of electric service to customers by LIPA is governed by the Home Energy Fair Practices Act (HEFPA). LIPA's credit and collections practices, including the ability to terminate (disconnect) service, are governed by HEFPA.

Exhibit 5 below shows net write-offs since 2010, which have ranged from a low of 54bps of billed revenue in 2013 to a peak of 67bps in 2011 and 2015.

Exhibit 5

Net Write-Offs as a Percentage of Billed Retail Revenues

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Exhibit 6 below shows LIPA customer delinquency data since 2010.

Exhibit 6

Average Monthly Delinquencies as a Percentage of Total Billed Revenues

	2010	2011	2012	2013	2014	2015
30-59 days	1.40%	1.46%	1.48%	1.54%	1.34%	1.20%
60-89 days	0.73%	0.80%	0.82%	0.84%	0.67%	0.59%
90+ days	2.43%	2.82%	3.42%	3.54%	2.31%	2.46%
Total	4.56%	5.08%	5.72%	5.93%	4.31%	4.25%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

Assets Analysis

Legal Analysis

Under the laws of New York and the United States, New York could not constitutionally take any legislative action, including the repeal or amendment of the securitization law, which would substantially limit, alter or impair the restructuring property or other rights vested in the bondholders pursuant to the financing order or substantially limit, alter, impair or reduce the value or amount of the restructuring property, unless (1) such action is a reasonable exercise of the State of New York's sovereign powers that appropriately furthers a legitimate public purpose; and (2) if such action constituted a permanent appropriation of the bondholders' substantial property interest in the restructuring property and deprived them of their reasonable expectations arising from their investments in the bonds, under the takings clauses of the federal and New York Constitutions, New York could not take such action without paying just compensation to the bondholders as determined by a court of competent jurisdiction.

New York does not have a referendum or initiative process by which the securitization law may be challenged. Therefore, the only way for the securitization law to be changed would be through a legislative action which would be subject to the state pledge.

Bondholders (or the trustee acting on their behalf) could challenge under the Contract Clause of the United States Constitution the constitutionality of any repeal or amendment of the securitization law or any other action or failure to take any action required by the state pledge that limits, alters or reduces the value of the restructuring property or the restructuring charges before the bonds are repaid in full, unless such action is necessary to further a significant and legitimate public purpose.

Under existing case law, assuming the takings clause applies under the federal and New York Constitutions, respectively, the State of New York would likely be required to pay just compensation to the bondholders if the State undertook a repeal or amendment of the securitization law or took any other action or failed to take any action required by the state pledge before the bonds are repaid in full that: 1) permanently appropriates the related restructuring property or denies all economically productive use of the related restructuring property; 2) destroys the restructuring property, other than in response to emergency conditions; or 3) substantially reduces, alters or impairs the value of the restructuring property so as to unduly interfere with the bondholders' reasonable expectations arising from their investments in the bonds.

The financing order provides that the restructuring property may be pledged to secure the payment of the bonds, financing costs, and other amounts owed. The securitization law provides that a valid and enforceable security interest in the restructuring property will attach and be perfected at the time the pledge is made. The lien and security interest attach without any physical delivery of collateral or other act. The securitization law provides that the pledge is continuously perfected and has priority over any other lien created by the operation of law or otherwise that may be created subsequently.

Strong Service Area

Long Island's economy benefits from a highly skilled labor force, close proximity to New York City, more than 20 colleges and universities and core research institutions.

Long Island's median household income is substantially above that of New York State and the US. According to estimates from the US Census Bureau, the 2014 median household income for Nassau County and Suffolk County was \$99,035 and \$86,266, respectively, considerably higher than the \$58,878 for New York State and the \$54,562 for the US. According to the Authority, while the cost of electricity in the service area is higher than the national average, the cost of electricity as a percentage of income is below the national average.

Exhibit 7 below shows the percentage of total billed revenue attributable to each customer class since 2004.

Exhibit 7

Sales by Revenue Class (% of Total Billed Revenue)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	51.5%	52.8%	52.2%	52.4%	53.2%	53.2%	54.1%	53.8%	54.2%	54.4%	53.4%	54.4%
Commercial	46.6%	45.1%	45.7%	45.4%	44.5%	44.5%	43.8%	43.9%	43.7%	44.6%	44.0%	43.5%
Street Lighting	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	1.1%	0.7%
Other Public Authorities	1.1%	1.4%	1.3%	1.4%	1.5%	1.5%	1.3%	1.5%	1.4%	0.3%	1.5%	1.5%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016, and Moody's Investors Service

For the twelve months ending on June 30, 2016, the ten largest retail electric customers represented approximately 5.7% of the Authority's retail kilowatt-hour sales resulting in 4.8% of revenues. As of the closing date, no customer or group of related commercial is exempt from paying the restructuring charges. Exhibit 8 below shows the energy usage and revenue from the top 10 commercial customers.

Exhibit 8

Top 10 LIPA Commercial Customers

	Industry	Energy Usage (GWh)	% of Total Energy Usage	Revenues (\$000)	% of Total Revenues
1	State Public Transportation	303.8	1.52%	\$45,428,220	1.32%
2	Telecommunications	145.7	0.73%	\$22,870,878	0.67%
3	Nas/Suf County Govt Twnsps	132.6	0.67%	\$20,800,037	0.61%
4	Water Districts	122.7	0.62%	\$20,598,940	0.60%
5	Health Services-Hospitals	120.0	0.60%	\$17,580,632	0.51%
6	Retail Food	102.6	0.51%	\$16,725,102	0.49%
7	Real Estate/Developers	66.9	0.34%	\$5,284,931	0.15%
8	Nassau Universities	51.0	0.26%	\$7,354,337	0.21%
9	Manufacturing	43.7	0.22%	\$4,489,759	0.13%
10	Retail Non-Food	36.4	0.18%	\$3,726,650	0.11%
	Total	1,125	5.65%	164,859,486	4.81%

Source: Utility Debt Securitization Authority

Remote Risk of Severe Ratepayer Base Declines

The Series 2016B bonds are exposed to the risk of declines in the ratepayer base in the service area. However, declines in the ratepayer base dramatic enough to impact the rating of the bonds are unlikely given the size, projected population growth and economic stability of the service area's stable ratepayer base. We view the risks to the transaction of ratepayer base declines due to any of these factors to be low.

Self-Generation

We look at the potential for increased use of self-generation as a minor headwind to the transaction. Self-generation, which primarily includes solar, reduces the ratepayer base and increases the burden of restructuring charges on other non-self-generating ratepayers. Customers that self-generate will only be responsible for paying restructuring charges based upon their net-billed consumption. The securitization law and financing order do not provide for exit fees to be charged to any customers that might leave the grid to self-generate.

Change in Service Area

We look at the risk of a ratepayer base decline due to a change in the service area to be minimal. The restructuring charge will be recoverable from all customers taking T&D service. As of July 29, 2013, the securitization law defines the service area to include two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. Thus, the service area is fixed by the legislation. If the service area expands in the future, the new customers would be subject to the restructuring charge on a going-forward basis.

Municipalization

We view the risk to the ratepayer base due to municipalization as low due to the nonbypassability of the charges. Moreover, municipalization would not affect restructuring charge collections since a successor and its customers will be subject to the restructuring charges, even if the T&D system assets are no longer owned by the Authority. Since 1998, no municipalizations have occurred in the service area.

Storm Damage

We view the risk of reduced collections due to weather to be low, and substantially mitigated via the true-up mechanism. Hurricanes, tropical storms or wind storms may impact the Authority's operations, temporarily interrupting transmission, distribution and consumption of electricity, hence reducing the collections of restructuring charges. There might be longer-lasting weather-related adverse effects on residential and commercial development and economic activity in the Authority's service area, which could cause the per-kWh restructuring charge to be greater than expected.

Forecasting Electricity Consumption

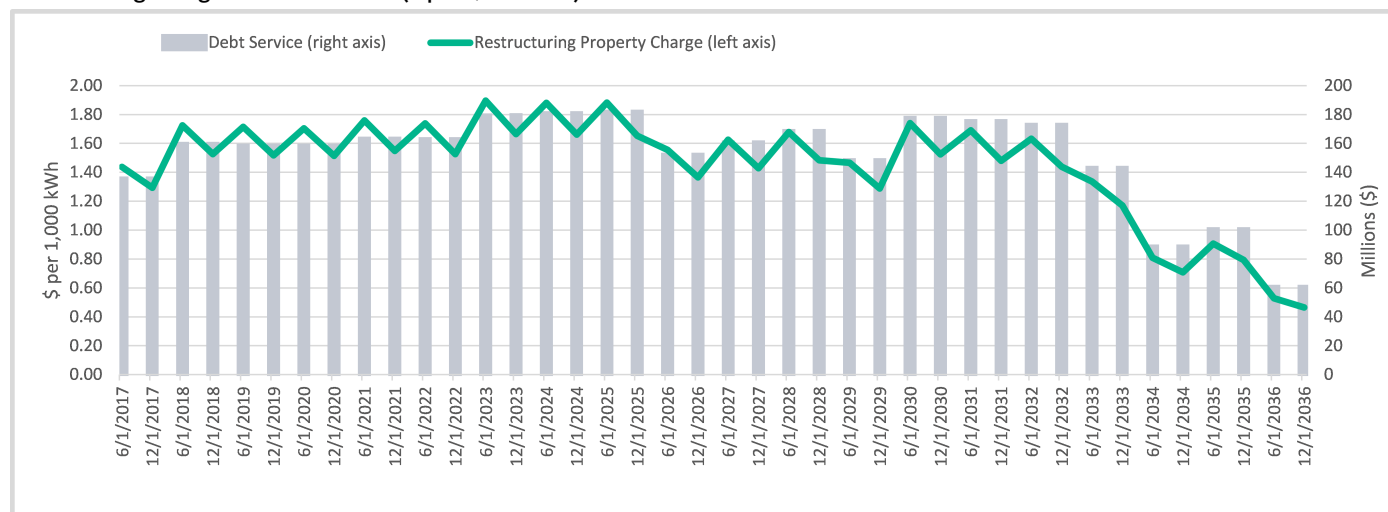
The Authority's internal company forecasts are used for projections of electricity price and weather conditions. The forecast incorporates customer usage, delinquencies and write-offs, among other inputs.

The Authority assesses the restructuring charges based on its forecasts of customer usage. The amount and the rate of restructuring charge collections will depend in part on actual electricity consumption and the amount of collections and write-offs.

Exhibit 9 below shows the forecasted restructuring charge per 1,000 kWh and scheduled debt service payments.

Exhibit 9

Restructuring Charge and Debt Service (\$ per 1,000 kWh)*



*Preliminary and subject to change based on market conditions

Source: Utility Debt Securitization Authority; Moody's calculations

Forecast Variance

For there to be insufficient funds to pay ultimate principal and timely interest on the bonds, there would need to be unexpected, persistent and extensive drops in electricity consumption. Additionally, there may be insufficient funds if the servicer inaccurately forecasts electricity consumption or uses inaccurate customer delinquency or charge-off data when setting or adjusting the 2016B restructuring charges. We view this risk as remote, as the maximum forecast variance since 2011 has been less than 6% per customer category, as shown in Exhibit 10.

Exhibit 10

Annual Forecast Variance for Ultimate Electric Delivery (% of Forecast)

	2011	2012	2013	2014	2015
Residential	4.31%	-2.37%	-2.69%	-4.28%	0.51%
Commercial	-1.00%	-3.59%	-2.39%	-1.70%	-2.07%
Street Lighting	0.17%	-2.19%	-4.44%	1.71%	-3.81%
Other Government	5.49%	-13.64%	-4.20%	3.13%	2.49%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016

Cash Flow Analysis

We examined the cash flows that the restructuring charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the restructuring charges can go as a percentage of a 1,000 kWh residential customer's bill and also to illustrate how the restructuring charges behave under various stress scenarios of customer demand. Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm that the level of the restructuring charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the restructuring charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. Such challenge is more likely the higher the charges, i.e., the more the economic incentive for a challenge, or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the restructuring charge, both in absolute terms and as a percentage of the customer's energy bill. In our more extreme scenarios, the percentage of a residential customer's monthly bill devoted to the restructuring charge is as high as 22.74%, higher than most other utility cost recovery charge securitizations. This concern is mitigated by the Authority's securitization offset rider, which reduces the delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

The Authority expects the combined initial restructuring charge for the 2013, 2015, 2016A and 2016B transactions to be around 7.8% of the total monthly bill that an average 1,000 kWh residential customer in the service area would receive as of June 15, 2017, which is higher than most other utility cost recovery charge securitizations we rate. The 7.8% is preliminary and subject to change based on market conditions.

We looked at three scenarios:

Scenario Description and Projected Output**Base Scenario**

1. Electricity consumption as per the Authority's projections
2. Implied net charge-offs of 0.62%
3. Collection curve projects 20.0% of collections within 30 days and 80.0% of collections between 30-60 days
4. Servicing fee is 0.05% on an annualized basis of the original principal amount of bonds so long as the servicer remains LIPA or an affiliate. While a back-up servicer has not been retained, the issuer can increase servicing fees to 0.60% to attract one if needed.

Stress Scenario 1

1. Electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers
2. Annual net charge-offs are the same as in base case
3. Collection curve is the same as in base case

4. Loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year
5. Replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case

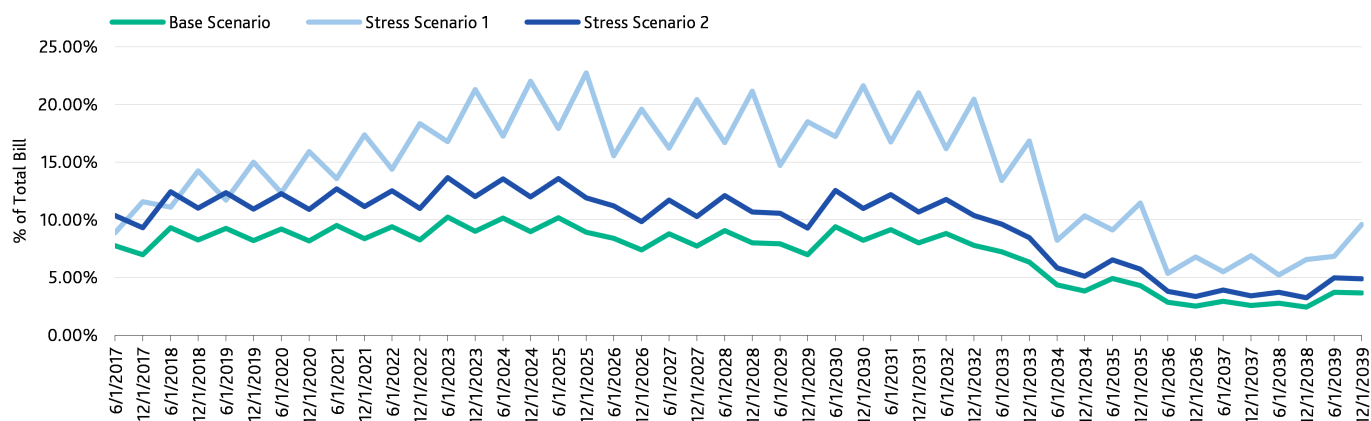
Stress Scenario 2

1. Electricity consumption is reduced by 25% permanently against the first year base case projection
2. Annual net charge-offs the same as in base case
3. Collection curve is the same as in base case
4. Servicing fee and all other fees the same as in base case

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 11 shows the projected restructuring charge as a percentage of a 1,000 kWh residential customer's total bill, and Exhibit 12 shows the projected restructuring charges for customers per 1,000 kWh over the securitization's life. The periodic variance in the charges under the stress scenarios is due to the semiannual true-ups capturing seasonality in electricity usage.

Exhibit 11

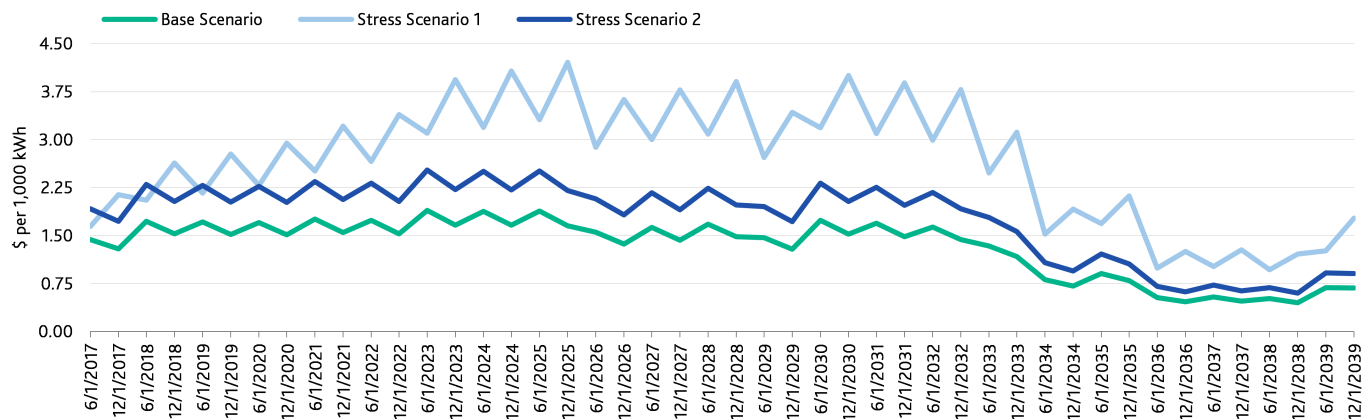
Projected Restructuring Charge as a Percentage of a Customer's Total Bill



Source: Utility Debt Securitization Authority; Moody's calculations

Exhibit 12

Projected Restructuring Charge (\$ per 1,000 kWh)



Source: Utility Debt Securitization Authority; Moody's calculations

Comparables

As shown in Exhibit 13, stress scenario 1 is more stressful and results in a peak restructuring charge equal to about 22.74% of a 1,000 kWh per month customer's bill. This is high compared to other utility cost recovery deals.

Exhibit 13

Maximum Recovery Charge Comparison (% of a 1,000 kWh Customer's Bill)

Deal name	Base	Stress1	Stress2
UDSA 2016B	10.25%	22.74%	13.66%
UDSA 2016A	7.21%	16.04%	10.40%
DEF 2016-1	2.65%	6.94%	4.73%
UDSA 2015	7.00%	12.32%	7.89%

Source: Moody's

Securitization Structure Overview

On the closing date, the Authority will sell the restructuring property to the issuer pursuant to a sale agreement between the issuer and the Authority. LIPA will be the servicer of the restructuring property. PSEG-LI will perform LIPA's key servicing duties pursuant to an operations services agreement, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among others.

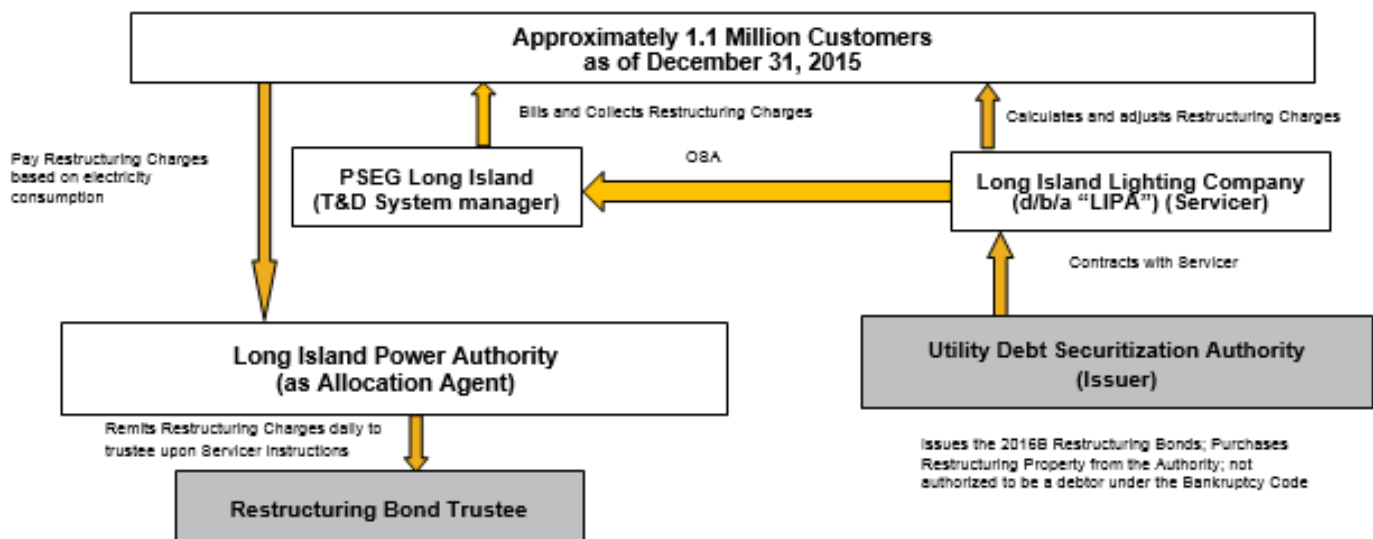
Securitization Structure Description

Structural Diagram

Exhibit 14 below illustrates the relationships between the transaction parties and bondholders.

Exhibit 14

Structural Diagram



Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016B Preliminary Official Statement dated July 28, 2016

1. The issuer purchases the restructuring property from the Authority and issues the Series 2016B bonds
2. The issuer contracts with LIPA as servicer to calculate and adjust the restructuring charges
3. LIPA contracts with PSEG-LI to bill and collect the restructuring charges

4. Electric utility customers pay restructuring charge on electricity bills based on electricity consumption
5. The Authority, as allocation agent, remits the restructuring charges to the trustee on a daily basis

Detailed Description of the Structure

Credit Enhancement

Credit enhancement for the bonds will be provided by the true-up mechanism, as well as by the debt service reserve account. The primary purpose of the excess funds subaccount is not to provide credit enhancement for the bonds but to hold funds collected in amounts that were more than necessary to pay current debt service. However, amounts in the excess funds subaccount may be used to make debt service payments on the bonds when needed.

Operating Reserve Account

On or before the date of issuance of the bonds, the Authority will deliver to the trustee for deposit into the operating reserve account an amount not less than 0.50% of the initial aggregate principal amount of the Series 2016B bonds. Amounts may be withdrawn from the account to pay scheduled principal on the Series 2016B bonds, provided however that an amount not less than 0.50% remains on deposit in the account.

Debt Service Reserve Account

On or before the date of issuance of the bonds, the issuer will make a capital contribution to the trustee in an amount not less than 1.5% of the aggregate outstanding principal amount of the bonds, which will be deposited in the debt service reserve account. Under the financing order, any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the subaccount and applied to subsequent payments.

Cash Commingling

The servicer is entitled to commingle the restructuring charges that it receives with its own funds until it remits the funds to the indenture trustee on a daily basis. The securitization law provides that the priority of a lien and security interest is not impaired by the commingling of funds arising from restructuring charges with other funds.

No less often than annually, the servicer and the indenture trustee will reconcile remittances of estimated recovery charge collections with actual payments received. To the extent the remittances of estimated payments exceed the amounts that should have been remitted, the servicer will be entitled to withhold the excess amount from any subsequent remittance. To the extent the remittances of estimated payments are less than the amount that should have been remitted, the servicer will remit the amount of the shortfall to the allocation account within two business days. Any discrepancy between estimated and actual collections is mitigated by the true-up mechanism, which allows the Authority to adjust the restructuring charges at any time as needed to make timely interest and principal payments on the bonds.

Payment Priority

On each semiannual payment date, or for items 1 through 4 below, on any business day, the trustee will pay or allocate, at the direction of the servicer, all amounts on deposit in the collection account in the following order of priority:

1. to the trustee, i) all fees, expenses and ii) any outstanding indemnity amounts not to exceed \$800,000 in each year;
2. to the servicer, the servicing fee and all prior unpaid servicing fees, capped at 0.60% of the aggregate principal balance of the bonds in each year;
3. to the administrator, the administration fee (\$100,000 per year) and all prior unpaid administration fees;
4. the payment of all other operating expenses to the persons entitled to such payment;
5. to the bondholders, first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable bond interest rate) and second, interest due on such payment date;
6. to the bondholders, principal due and payable on the bonds as a result of an event of default and an acceleration of the bonds or on the legal final maturity date of a tranche of bonds;

7. to the bondholders, principal for such payment date, sequentially according to the related expected amortization schedule;
8. to the trustee, indemnity amounts in excess of \$800,000 in each year;
9. to the servicer, the servicing fee and all prior unpaid servicing fees in excess of 0.60% of the aggregate initial principal balance of the bonds in each year;
10. to the debt service reserve subaccount, the amount, if any, by which the required reserve level (1.5% of the aggregate outstanding principal balance of the bonds) exceeds the amount in the debt service reserve subaccount as of such payment date;
11. to the operating reserve subaccount, the amount, if any, by which the required operating reserve level (0.5% of the aggregate initial principal balance of the bonds) exceeds the amount in the operating reserve subaccount as of such payment date;
12. any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the debt service reserve subaccount and applied to clauses 5 through 7 above on the next payment date; and
13. to the excess funds subaccount, the balance, if any, for distribution on subsequent payment dates

If funds in the general subaccount are insufficient to make the payments required under items 1 through 9, the trustee will first, draw from amounts in the excess funds subaccount and second, draw from amounts in the operating reserve subaccount, in each case, to make the payments required under items 1 through 9. In addition, if funds in the general subaccount, together with moneys available in the excess funds subaccount and the operating reserve subaccount, are insufficient to make the payments required under items 5 through 7, the trustee will draw from amounts in the debt service reserve subaccount, up to the amount of such shortfall. If funds in the general subaccount are insufficient to make the allocations under item 10, the trustee will draw from amounts in the excess funds subaccount to make such allocations.

LIPA will calculate the annual true-up adjustment to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next annual true-up adjustment. Should LIPA perform a mid-year true-up adjustment, LIPA will similarly calculate the mid-year true-up adjustment to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next mid-year true-up adjustment.

Events of Default

An event of default with respect to the bonds is defined in the indenture as any one of the following events:

1. failure to pay interest or redemption price on any bond when due (after a five day cure period);
2. failure to pay principal of any tranche of a bond on the legal final maturity date for such tranche;
3. failure of the issuer to perform a covenant (after a cure period);
4. breach by the issuer of its representations or warranties (after a cure period);
5. commencement of an involuntary bankruptcy or similar proceeding against the issuer which remains in effect for 90 days;
6. commencement of a voluntary bankruptcy or similar proceeding by the issuer; or
7. an action violating the financing order or state pledge.

Issuance of Additional Bonds

The issuer can issue up to \$4.5 billion in restructuring bonds over four distinct financing orders. To the extent the amount authorized is not issued under this fourth and final financing order, additional financings may be authorized by new financing orders to be adopted at a later date. Each series of restructuring bonds that may be issued will be backed by separate restructuring property the issuer acquires for the separate purpose of repaying that series. Any new series of such securities may include terms and provisions that would be unique to that particular series of restructuring bonds. However, the issuer may not issue additional restructuring bonds unless the rating agency condition for the bonds has been satisfied.

Asset Transfer, True Sale and Bankruptcy Remoteness

The securitization law provides that an electric utility's transfer of restructuring property is a true sale and is not a pledge of or a secured transaction relating to the electric utility's right, title and interest in the restructuring property (other than for federal and state income and franchise tax purposes) and that legal and equitable title passes to the transferee, if the agreement governing that transfer expressly states that the transfer is a sale or other absolute transfer.

The securitization law created the issuer, a bankruptcy-remote special purpose corporate municipal instrumentality, and a political subdivision and public benefit corporation of the State of New York. Under the securitization law, the issuer is not authorized to be a debtor under Chapter 9 or any other provision of the Bankruptcy Code.

The issuer was formed solely to purchase and own the restructuring property, to issue the bonds which are to be secured by the restructuring property, and to perform any activity incidental thereto. The issuer has no commercial operations.

The issuer will issue the bonds under an indenture with the trustee and will use the bond proceeds to purchase the restructuring property from the Authority and to pay the cost of issuing the bonds. The issuer will pledge the restructuring property to secure the bonds.

Sponsor and Seller

The Long Island Power Authority will be the securitization's sponsor and the seller of the restructuring property. The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York, and is authorized to be a Chapter 9 debtor pursuant to its enabling legislation.

The Authority took over as the retail supplier of electric service in the service area in 1998 by acquiring the Long Island Lighting Company (LILCO) as a wholly-owned subsidiary of the Authority through a merger. Since the merger, LILCO has done business under the name "LIPA." LIPA, acting through LILCO provides electric delivery service in the service area.

The Authority is governed by a Board of Trustees and is generally not regulated by the New York Public Service Commission (PSC) or the Federal Energy Regulatory Commission. The Authority is authorized under its enabling statute to set rates for electric service in the service area without obtaining the approval of the PSC or any other State regulatory body.

The Authority and LIPA are parties to a financing agreement providing for their respective duties and obligations relating to the financing and operation of the retail electric business. Under the agreement, LIPA conducts the electric business in the service area and is responsible for providing service to customers in the service area. The Authority and LIPA are also parties to an administrative services agreement pursuant to which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the service area.

Administrator

LIPA will provide or arrange for the provision of administrative services to the issuer pursuant to an administration agreement, including services relating to the preparation of financial statements, required filings with the SEC, any tax returns the issuer might be required to file, qualifications to do business, and minutes of the issuer's managers' meetings. LIPA, as administrator, will be entitled to receive an annual administration fee of \$100,000 payable annually, in arrears.

Securitization Structure Analysis

The key structural feature of this transaction is the true-up mechanism. Our rating is highly dependent on the extent to which the mechanism adjusts the charges to correct for past shortfalls or forecasted future shortfalls. The effectiveness of those rate changes in raising funds depends, in turn, on how easily customers can escape the charges and how sensitive electricity usage is to increases in the utility charges. Therefore, our analysis of the true-up mechanism goes together with our analysis of how bypassable the cost recovery charges are and how easily customers can cut back on electricity usage.

In this transaction, the strong true-up mechanism combined with nonbypassable charges mitigates the need for credit enhancement in the form of alternative sources of funds. The operating reserve and debt service accounts provide sufficient funds to offset the typical variance in collections versus projections in order to meet the projected amortization schedule between the semi-annual true-ups.

Methodology and Monitoring

The principal methodology used in this rating was [Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges](#) published in June 2015. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moody.com.

In monitoring this transaction, we apply the key components of our methodology. More specifically, we analyze whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialize, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

We also follow the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of LIPA (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

Thus changes in our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

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INVESTORS SERVICE

CREDIT OPINION

18 February 2016

Pre-Sale

Closing Date

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Utility Debt Securitization Authority Restructuring Bonds, Series 2016A

Presale Report - Long Island Power Authority-Sponsored
Securitization of Utility Cost Recovery Charge Assets

Capital Structure

Exhibit 1

Provisional (P) Ratings*

Series	Expected Amount	Tax Status	Interest Rate	Legal Maturity**	Provisional Ratings
2016A	[\$381,730,000]	Tax- Exempt	Fixed	[12/15/2028]	(P) Aaa (sf)

The ratings address the expected loss posed to investors by the legal final maturity date. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the securitization. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

* Principal amounts and legal maturity dates are preliminary and subject to change

** Reflects the latest legal maturity date among the tranches in the series

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016, and Moody's Investors Service

Summary Rating Rationale

The Utility Debt Securitization Authority (the issuer) intends to issue Restructuring Bonds, Series 2016A. The bond issuance will enable the Long Island Power Authority (LIPA, Baa1 stable) to retire a portion of its outstanding debt. This will be the third utility cost recovery charge (UCRC) securitization that LIPA has sponsored since 2013. These bonds are backed by restructuring property which consists of, among other things, the right to impose usage-based restructuring charges on all current and future retail electric customers in LIPA's service area.

Our provisional ratings on the bonds reflect our assessment of (1) the strength of the State of New York's legislation including the State's non-impairment pledge, which strongly protects the restructuring property backing the bonds; (2) the strength of LIPA's irrevocable financing order authorizing the creation of the restructuring property; (3) the size, stability

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 18 February 2016. Investors should be aware that certain issues concerning this transaction have yet to be finalized. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavor to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

and diversity of the ratepayer base in LIPA's service area; (4) the ability and experience of LIPA, who is responsible for the billing and collection of the 2016A restructuring charges, as the initial servicer of the restructuring property, and of PSEG Long Island LLC (PSEG-LI), who will perform LIPA's key servicing functions; and (5) the credit enhancement supporting the bonds in the form of a mandatory uncapped true-up mechanism that periodically adjusts the restructuring charges to ensure timely bond payments until the bonds are repaid in full, a non-declining operating reserve account and a debt service reserve account.

Credit Strengths

Strength of Legislation and Financing Order: The State of New York's legislation (Part B of the LIPA Reform Act, or the securitization law), coupled with an irrevocable financing order that became final and non-appealable on August 14, 2015 permits the securitization and strongly protects the restructuring property securing the bonds. Similar to other UCRC securitizations, this transaction benefits from the securitization law's inclusion of a state non-impairment pledge under which the State of New York pledges to UCRC bondholders that it will not 1) take or permit any action that limits, alters or impairs the value of the restructuring property, or 2) except as required by the adjustment mechanism, reduce, alter or impair restructuring charges until the bonds have been repaid in full (the state pledge). In addition, the LIPA Reform Act and financing order contain the typical strong true-sale and security interest provisions.

LIPA's irrevocable financing order authorizes the creation of restructuring property, which grants the issuer the irrevocable right to impose, bill and collect irrevocable, non-bypassable restructuring charges based on electricity usage from all of LIPA's existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full.

The financing order authorizes LIPA to recover the costs of retiring certain of its outstanding debt and the issuer to recover the costs of issuing, supporting and servicing the bonds. The issuer will recover these costs by collecting restructuring charges until the bonds are repaid in full, without any specified time limit.

True-Up Adjustment Mechanism: The true-up adjustment mechanism is the key form of credit enhancement supporting the bonds. The financing order authorizes an uncapped true-up adjustment mechanism that mandatorily adjusts restructuring charges annually, and if necessary, semiannually (and quarterly after the last scheduled maturity date of the bonds of any series), in each case to ensure timely bond payments. In addition, the financing order authorizes more frequent interim adjustments, at any time without limitation as to frequency, if the servicer deems necessary to ensure timely bond payments. New to the 2016A transaction, the servicer may elect to perform an additional voluntary mid-year true-up adjustment to decrease charges to customers to correct for overcollections in any year (in addition to the requirement that the servicer perform a mandatory mid-year adjustment to increase charges to customers to correct for undercollections). Also, the timing of the mid-year and annual true-ups has changed to help smooth charges over the course of the year.

Strength of the Ratepayer Base: The size, economic stability and diversity of the ratepayer base in LIPA's service area is a credit strength. The service area is fixed by the securitization law and primarily includes the Long Island counties of Nassau and Suffolk, which are two of the most affluent counties in the United States. The service area primarily includes a mix of residential customers (89%) and commercial customers (10%). Unlike most other UCRC securitizations, the service area includes very few industrial customers, which is a credit positive. Energy consumption by industrial customers is more volatile compared with other types of customers, because consumption by industrial operations is more closely tied to the business cycle.

Credit Challenges

Challenges to LIPA Reform Act and Financing Order: Potential state and federal legislative and regulatory actions could weaken the strength of the legal protections of the securitizable restructuring property; however we view this risk as remote. New York does not have a referendum or initiative process by which voters could challenge the LIPA Reform Act. Therefore, the only way to repeal or amend the LIPA Reform Act, or for LIPA to amend or revoke the financing order, would be through a legislative action which would violate the state pledge. The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims. The irrevocable and unconditional nature of the financing order mitigates any concern that it could be altered.

Potential for Insufficient Collections: Collections arising from the restructuring property could fall short of required distributions on the bonds resulting from inaccurate forecasting of electrical consumption by the servicer, unanticipated delinquencies and defaults, population migration and self-generation. PSEG-LI's estimates of market demand, energy prices and growth within LIPA's service area could also be inaccurate. These concerns are mitigated by the mandatory uncapped true-up adjustment mechanism, in which the servicer is required to adjust the charges periodically throughout the year to ensure timely payment of the bonds. These true-up adjustments occur annually, semiannually and on an interim basis as needed.

Relatively High Restructuring Charge: LIPA expects the securitization's initial restructuring charge to represent around [0.79%] of the total monthly bill that an average 1,000 kilowatt hour (kWh) residential customer in LIPA's service area will receive as of June 1, 2016. The initial restructuring charge for the 2016A transaction, combined with the current restructuring charge for the 2013 and 2015 transactions, is expected to represent approximately [6.91%] of a typical residential customer's bill, and is relatively high compared to other utility cost recovery transactions. This concern is mitigated by LIPA's securitization offset rider, which reduces LIPA's delivery charge in an amount equal to any increase in the restructuring charge to keep customers' total monthly bills stable.

Key Characteristics

Exhibit 2

Asset Characteristics

Assets:	Restructuring property consisting of the issuer's irrevocable right to impose, charge and collect irrevocable, non-bypassable usage-based restructuring charges from all existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up adjustment mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full

Service Area:	Approximately 1.1 million customers in Nassau and Suffolk counties ¹ and the Rockaway Peninsula

¹ Excludes the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Exhibit 3

Securitization Structure Characteristics

Securities Offered:	Tax-exempt, fixed rate bonds with semi-annual payments
Amount:	[\$381,730,000] ¹
Structure:	Standalone trust
Credit Enhancement:	Mandatory uncapped true-up mechanism, Collection Accounts and Debt Service Reserve Account
Sponsor/Seller/Initial Servicer:	Long Island Power Authority (Baa1 stable)
Issuer:	Utility Debt Securitization Authority, a special purpose corporate municipal instrumentality of the State of New York
Operations Agent:	PSEG-Long Island
Trustee:	Bank of New York Mellon (Aa1/Aa2 stable, a1) ²

¹ Preliminary and subject to change based on market conditions

² The bank ratings shown in this report are the banks' deposit ratings and senior unsecured debt ratings and outlooks, and their baseline credit assessments

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Offering Statement dated February 18, 2016

Assets Overview

The collateral for this pool is the restructuring property consisting of the irrevocable right to impose, charge and collect non-bypassable, usage-based restructuring charges from all existing and future retail electric customers in LIPA's service area, and related rights, including a mandatory uncapped true-up mechanism that periodically adjusts the charges to ensure timely bond payments until the bonds are repaid in full.

Assets Description

The Securitization Law

The purpose of the securitization law is to create the issuer and allow LIPA to finance the retirement of a portion of its outstanding debt through the issuer's issuance of restructuring bonds, resulting in savings to LIPA's customers on a net present value basis. The securitization law gives LIPA the right to impose restructuring charges, which are the key asset of this securitization.

Prior to the legislature's amendment of the securitization law on March 26, 2015, the law permitted only one issuance of restructuring bonds by the issuer, and that issuance took place in December 2013 pursuant to Financing Order No. 1. The amended securitization law permits LIPA's Board of Trustees to adopt additional financing orders to, among other things, authorize the creation of additional restructuring property and the issuance of additional restructuring bonds in an aggregate additional amount not to exceed \$4.5 billion (inclusive of the \$2,022,324,000 previously issued 2013 restructuring bonds and the \$1,002,100,000 previously issued 2015 restructuring bonds). After the 2016A issuance, LIPA will have authority to issue an additional [\$1,093,846,000] billion of restructuring bonds under the securitization law.

Specifically, the securitization law coupled with the financing order authorizes LIPA to sponsor multiple bond issuances to finance the recovery of the costs of retiring a portion of its outstanding debt and financing costs, including the costs of issuing, supporting and servicing the bonds.

Similar to other UCRC securitizations, this securitization benefits from the securitization law's inclusion of a state non-impairment pledge, subject to the true-up mechanism, that will be incorporated into the securitization documents for the benefit of the trustee on behalf of bondholders. A breach of such pledge triggers an event of default under the indenture.

Specifically, the State of New York pledges to and agrees with the bondholders, the issuer and LIPA that the State will not in any way: 1) take or permit any action that limits, alters or impairs the value of the restructuring property; or 2) except as required by the adjustment mechanism authorized by the securitization law and set forth in the financing order, reduce, alter or impair restructuring charges that are imposed, collected and remitted for the benefit of the bondholders until all principal of and interest on the bonds and all ongoing financing costs have been repaid in full.

The state pledge provides protection to bondholders; to the extent LIPA or the State of New York have obligations under the financing order, the LIPA Reform Act provides that the owner of the restructuring property (the issuer), or the trustee representing the bondholders, are expressly permitted to bring actions for enforcement of the financing order.

New York does not have a referendum or initiative process by which voters could challenge the securitization law. Therefore, the only way to change the securitization law would be through a legislative action which would be subject to the state pledge.

The risk that the State of New York would take legislative action that compromises its state pledge to the significant detriment of bondholders is remote because state impairment would give rise to claims under state and federal laws prohibiting government impairment of contracts and taking of private property without reasonable reimbursement under state and federal "taking" claims.

Under the laws of New York and the United States, New York could not constitutionally take any legislative action, including the repeal or amendment of the securitization law, which would substantially limit, alter or impair the restructuring property or other rights vested in the bondholders pursuant to the financing order or substantially limit, alter, impair or reduce the value or amount of the restructuring property, unless (1) such action is a reasonable exercise of the State of New York's sovereign powers that appropriately furthers a legitimate public purpose; and (2) if such action constituted a permanent appropriation of the bondholders' substantial property interest in the restructuring property and deprived them of their reasonable expectations arising from their investments in the bonds, under the takings clauses of the federal and New York Constitutions, New York could not take such action without paying just compensation to the bondholders as determined by a court of competent jurisdiction.

Hawkins Delafield & Wood LLP, LIPA's special counsel, will provide a legal opinion prior to securitization closing to the effect that the bondholders (or the trustee acting on their behalf) could successfully challenge under the contracts clause of the United States Constitution the constitutionality of any repeal or amendment of the securitization law or any other action or failure to take any action required by the state pledge that limits, alters or reduces the value of the restructuring property or the restructuring charges before the bonds are repaid in full, unless such action is necessary to further a significant and legitimate public purpose.

Hawkins Delafield & Wood LLP, LIPA's bond counsel, will provide a legal opinion prior to securitization closing to the effect that under existing case law, assuming the takings clause applies under the federal and New York Constitutions, respectively, the State of New York would be required to pay just compensation to the bondholders if the State undertook a repeal or amendment of the securitization law or took any other action or failed to take any action required by the state pledge before the bonds are repaid in full that: 1) permanently appropriates the related restructuring property or denies all economically productive use of the related restructuring property; 2) destroys the restructuring property, other than in response to emergency conditions; or 3) substantially reduces, alters or impairs the value of the restructuring property so as to unduly interfere with the bondholders' reasonable expectations arising from their investments in the bonds.

The Financing Order

The securitization law authorizes LIPA's securitization program, while a separate financing order implements each issuance of bonds under the program.

On June 26, 2015, LIPA Trustees adopted Financing Order No. 3 (the financing order), together with Financing Order No. 2 and Financing Order No. 4 and on July 15, 2015, the New York Public Authorities Control Board approved them. On August 14, 2015, they became irrevocable, final and non-appealable. Each financing order authorizes restructuring bonds that will be secured by a separate restructuring property that would be created pursuant to that financing order.

Similarly, the 2013 restructuring bonds that the issuer issued pursuant to Financing Order No. 1 are secured by the 2013 restructuring property, and the 2015 restructuring bonds that the issuer issued pursuant to Financing Order No. 2 are secured by the 2015 restructuring property.

The issuer is issuing the 2016A restructuring bonds pursuant to Financing Order No. 3, which authorizes: 1) the creation of the 2016A restructuring property; 2) LIPA to sell the 2016A restructuring property to the issuer under the financing order (the 2016A restructuring property is created simultaneously with its sale to the issuer); 3) the imposition, billing and collection of restructuring charges on, to and from the customers in the service area; 4) the issuance of the bonds by the issuer; 5) the issuer to use the bond proceeds to purchase the 2016A restructuring property from LIPA and pay upfront financing costs; and 6) LIPA to use the proceeds of the sale of the 2016A restructuring property to retire a portion of its outstanding debt.

The securitization law provides that the financing order is irrevocable and is not subject to modification or termination. The financing order acknowledges the state pledge.

Prior to the issuance of the bonds, the financing order requires the servicer to file an issuance advice letter with LIPA setting forth: 1) the expected savings to customers from the securitization; 2) the estimated ongoing financing costs; 3) the initial restructuring charge; and 4) the final terms of the bonds. The financing order authorizes a designee of LIPA to review and approve the issuance advice letter for the purpose of confirming that the stated terms are consistent with the financing order. The designee's approval will be final and incontestable.

The 2016A Restructuring Charges

Under the financing order, the servicer (on behalf of the issuer as owner of the restructuring property) has the right to impose, bill and collect irrevocable and non-bypassable restructuring charges from all of LIPA's customers in an amount sufficient to: 1) pay interest on the bonds when due and principal of each tranche of bonds according to the related expected amortization schedule; 2) pay the fees and expenses of the securitizations' service providers; and 3) replenish the operating reserve and debt service reserve subaccounts to the required levels.

There is no cap on the level of restructuring charges that the servicer may impose on ratepayers through the true-up adjustment mechanism to ensure the expected collection of amounts sufficient to pay the amounts specified above on time. Accordingly, the restructuring charges may continue to be imposed and collected until the bonds are repaid in full, without any specified time limit.

The financing order authorizes the servicer to collect restructuring charges directly from LIPA's customers. The restructuring charge will be the same for all customer classes. Under the securitization law, the charges and any adjustments thereto are not subject to review or regulation by the New York State Department of Public Service, the staff arm of the Public Service Commission.

Restructuring Charges are Non-Bypassable

The securitization law provides that the restructuring charges are non-bypassable. "Non-bypassable" as set forth in the securitization law and the financing order means that the customer is obligated to pay the restructuring charges (and may not legally avoid payment of such charges) as long as such customer is connected to the transmission and distribution (T&D) system assets (LIPA's delivery system, which includes transmission and distribution lines and substations) and is taking electric delivery service in the service area, even if such customer produces its own electricity or purchases electric generation services from a provider of electric generation services other than the owner of the T&D system assets and even if LIPA no longer owns the T&D system assets. Thus, the only way customers can avoid restructuring charges is if they are fully cut off from the T&D system assets.

Self-Generation in the Service Area is Low

Self-generation, which primarily includes solar and wind, reduces the ratepayer base and increases the burden of restructuring charges on other non-self-generating ratepayers. Self-generation is currently very small in the service area at roughly 0.3% of energy sales. LIPA forecasts self-generation to grow slowly over the next three years, and incorporates self-generation into its electricity consumption forecasts. Certain customers that self-generate will only be responsible for paying restructuring charges based upon their "net-billed" consumption.

Municipalization

Municipalization, or the transfer of the T&D system assets to a municipal owner, would not affect restructuring charge collections because the customers are required to pay the restructuring charges even if the T&D system assets are no longer owned by LIPA. Since 1998, no municipalizations have occurred.

The Service Area

LIPA provides electric transmission and distribution services in its service area which includes two counties in Long Island, NY – Nassau County and Suffolk County (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system) – and a small portion in Queens, NY known as the Rockaways. The population of the service area is around three million.

The securitization law defines the service area as the geographical area within which LIPA provided electric transmission and distribution services as of July 29, 2013. Thus, the service area is fixed by the legislation.

As of December 31, 2015, the service area included approximately 1.1 million customers. Of these, approximately 89.3% were residential, 10.2% commercial (with very few industrial customers), 0.5% street lighting and 0.0% other public authorities; the average number of customers has been fairly stable over the last 10 years, with very small year-over-year changes ranging from -0.2% to 0.7%. Retail electric usage was 48.2% residential, 48.8% commercial, 0.7% street lighting and 2.2% other public authorities.

In the year ending December 31, 2015, LIPA's largest customer, the Long Island Rail Road, accounted for less than 2.0% of LIPA's total sales, and LIPA's top 10 customers accounted for approximately 7.0% of LIPA's total sales.

Statutory Uncapped True-Up Adjustment Mechanism

Under the securitization law and the financing order, the servicer will adjust the restructuring charges through the securitization's true-up mechanism to ensure timely bond payments. The adjustments to the charges will continue until the bonds are repaid in full and there is no cap on the amount of charges that may be imposed on customers resulting from the adjustments.

The mechanics of the true-up adjustments are as follows:

1. initial true-up adjustment to the restructuring charges will be made on November 15, 2016
2. standard mandatory annual adjustments to the restructuring charges to correct for any over-collections or under-collections to date and anticipated to be experienced up to the date of the next annual adjustment and to ensure that the expected collections are sufficient to timely pay interest and scheduled principal (according to the expected amortization schedule) on the bonds and all other ongoing financing costs (the revenue requirement)

3. mandatory semiannual adjustments to the restructuring charges only if the servicer forecasts that charge collections will be insufficient to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
4. voluntary semiannual adjustments to decrease the restructuring charges to customers if the servicer forecasts that charge collections will be greater than the amount required to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
5. more frequent adjustments at any time without limits as to the frequency to ensure that the expected charge collections are adequate to ensure timely payment of interest and scheduled principal on the bonds and all other ongoing financing costs
6. after the last scheduled maturity date of the bonds (of any series), quarterly adjustments to ensure that charge collections will be sufficient to timely pay interest and principal on the next payment date, in addition to all other ongoing financing costs; the adjustments will be set at levels estimated to generate revenues sufficient to fully repay the bonds on the next payment date, plus all other ongoing financing costs

All adjustments will be designed to cause: 1) the outstanding principal balance of the bonds (or any series of bonds) to be equal to the scheduled balance (based on the expected amortization schedule); 2) the amount in the operating reserve and debt service reserve subaccounts to be equal to the required levels; and 3) with respect to the annual true-up only, any amount in the excess funds subaccount to be equal to zero by the payment date immediately preceding the effective date of the next annual adjustment.

Under the financing order, the adjustments are to be based on actual charge collections and the servicer's updated assumptions for projected future charge collections, projected uncollectibles and loss in collection of billed charges, and future payments and expenses relating to the restructuring property and the bonds.

No Third-Party Billing/Collection of Charges

Under the securitization law and the financing order, if and to the extent that third parties are allowed to bill and/or collect any restructuring charges in the future while the bonds are outstanding, LIPA, any successor regulator, and any owner of the T&D system assets will take steps to ensure non-bypassability and minimize the likelihood of default by third-party billers. Further, LIPA and any successor regulator will not permit implementation of any third-party billing or collection that would result in a reduction or withdrawal of the current ratings on the bonds.

Assets Analysis

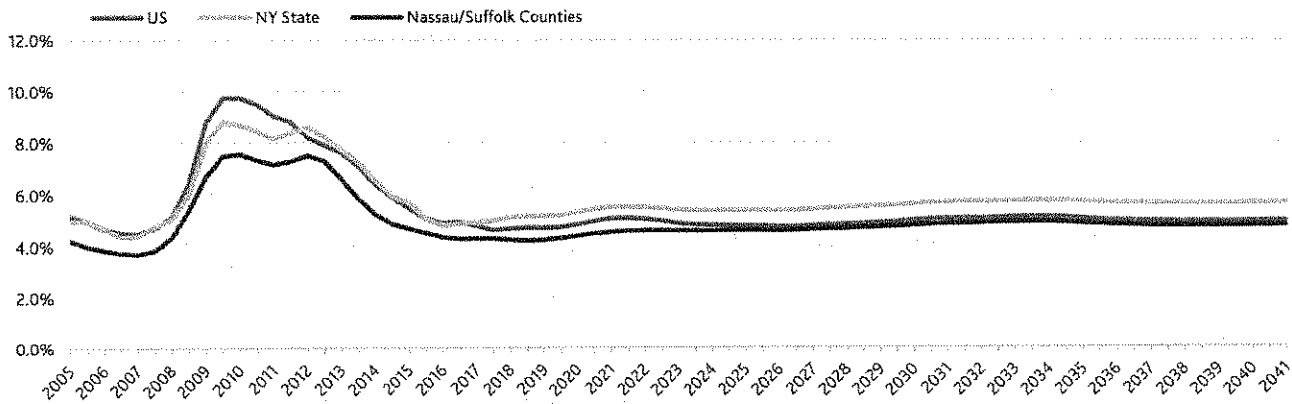
Strong Service Area

Long Island's economy benefits from a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy.

Long Island's median household income is substantially above that of New York and the US. According to estimates from the US Census Bureau, the 2014 median household income for Nassau County and Suffolk County was \$98,401 and \$88,323, respectively, considerably higher than the \$58,687 for New York and the \$53,482 for the US. According to LIPA, while the cost of electricity in the service area is higher than the national average, the cost of electricity as a percentage of income is below the national average.

Exhibit 4 shows that the Nassau-Suffolk unemployment rate is lower than that of the US, and we forecast the rate will remain lower.

Exhibit 4
Unemployment Rate*



* Data does not include the Rockaways, Queens, which is also part of the service area.
Source: US Bureau of Labor Statistics and Moody's Analytics

Exhibit 5 shows Moody's Analytics' forecasted average year-over-year changes in various economic stability measures for the service area, compared with New York and the US. The data include Nassau and Suffolk counties, but exclude the Rockaways in Queens, NY. The exhibit shows that forecasted population growth will be relatively flat.

Exhibit 5
Forecasted Average Year-Over-Year Changes in Population and Economic Stability Measures
(Data for 2016-2041, the scheduled maturity date of the bonds)

	Nassau-Suffolk *	New York	US
Population	0.1%	0.1%	0.7%
Households	0.3%	0.4%	0.9%
GDP (Chained 2009 \$)	1.6%	1.4%	2.0%
Per Capita Income	3.3%	3.6%	3.6%
Employment (non-farm payroll)	0.5%	0.5%	0.8%

* Does not include the Rockaways, Queens, which is part of the service area
Source: Moody's Analytics

Remote Risk of Severe Ratepayer Base Declines

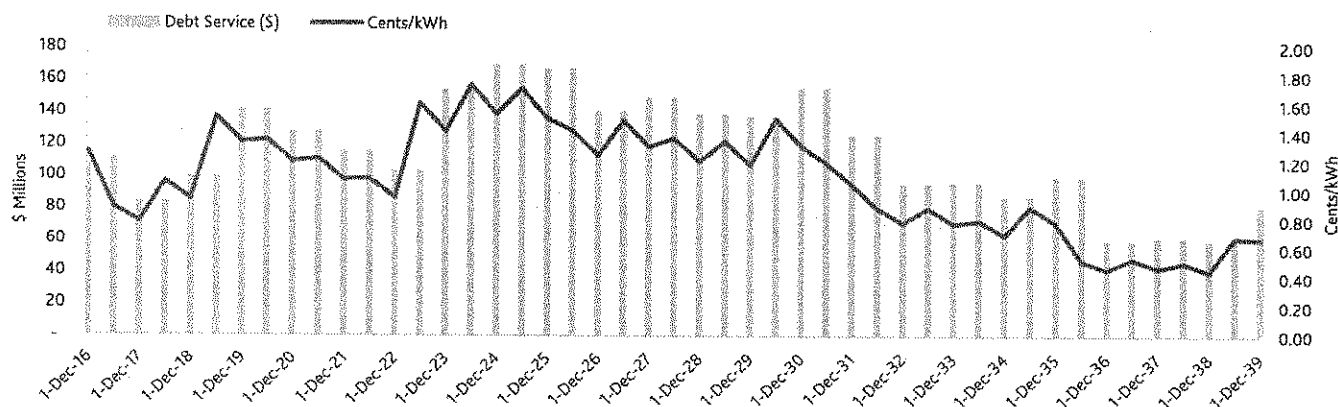
The securitization's performance is exposed to the risk of declines in the ratepayer base in the service area. However, declines in the ratepayer base dramatic enough to impact the rating of the bonds are unlikely given the size, projected population growth and economic stability of the service area's diverse ratepayer base.

LIPA expects the combined initial restructuring charge for the 2013, 2015 and 2016A transactions to be around [6.91%] of the total monthly bill that an average 1,000 kWh residential customer in the service area would receive as of June 1, 2016, which is higher than most other UCRC securitizations we rate. The [6.91%] is preliminary and subject to change based on market conditions.

Exhibit 6 shows LIPA's expected restructuring charge, which is the same for all customer classes, and annual debt service of the bonds over the securitization's life. The exhibit shows that the restructuring charge will vary over time to cover the unlevel debt service of the bonds, which mirrors the unlevel debt service of the retired LIPA bonds.

Exhibit 6

Restructuring Charge (Cents/kWh) and Annual Debt Service*



* Preliminary and subject to change based on market conditions.
Source: LIPA; Moody's calculations

Cash Flow Analysis

We examined the cash flows that the restructuring charges will generate under various scenarios. In light of the strength of the ratepayer base, the purpose was primarily to see how high the restructuring charges can go as a percentage of a typical residential customer's bill and also to illustrate how the restructuring charges behave under various stress scenarios of customer demand.

Our rating is primarily based on qualitative analysis of the political, legal and regulatory aspects of the securitization and the strength of the ratepayer base. However, we run these stress scenarios to confirm the level of the restructuring charges is consistent with other comparable transactions.

Even if the financing order is irrevocable, the charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That is more likely the higher the charges, i.e., the more the economic incentive for a challenge or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Typically the percentage of a residential customer's monthly bill devoted to the cost recovery charge is less than 10%.

We looked at three scenarios. In our base case, we assumed 1) electricity consumption as per LIPA's projections, 2) annual net charge-offs as per LIPA's projections, 3) collection curve as per LIPA's projections and 4) actual servicing fee and other expenses (Scenario A).

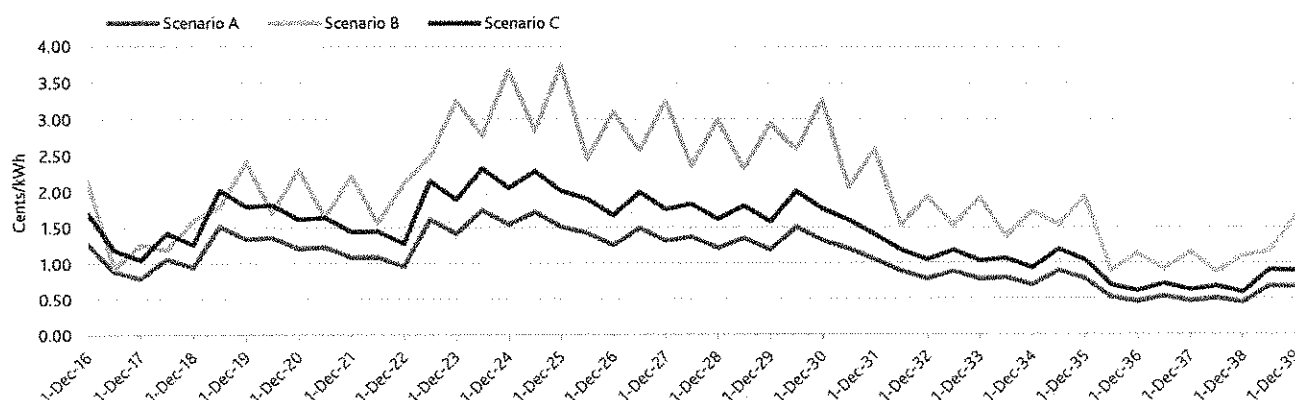
In our first stress scenario, we assumed 1) electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers, 2) annual net charge-offs are the same as in base case, 3) collection curve is the same as in base case, 4) loss of 100% of the collections from the peak consumption month and 50% of the collections from the second highest consumption month each year and 4) replacement servicing fee of 0.60% per year of the initial bond balance with other expenses the same as in the base case (Scenario B).

In our second stress scenario, we assumed 1) electricity consumption is reduced by 25% permanently against the first year base case projection, 2) annual net charge-offs the same as in base case, 3) collection curve is the same as in base case and 4) servicing fee and all other fees the same as in base case (Scenario C).

For all of the scenarios, the bonds are fully paid by their legal final maturity dates. Exhibit 7 shows the projected restructuring charges for customers in cents per kWh, and Exhibit 8 shows the projected restructuring charge as a percentage of the typical residential customer's total bill assuming monthly usage of 1,000 kWh over the securitization's life.

Exhibit 7

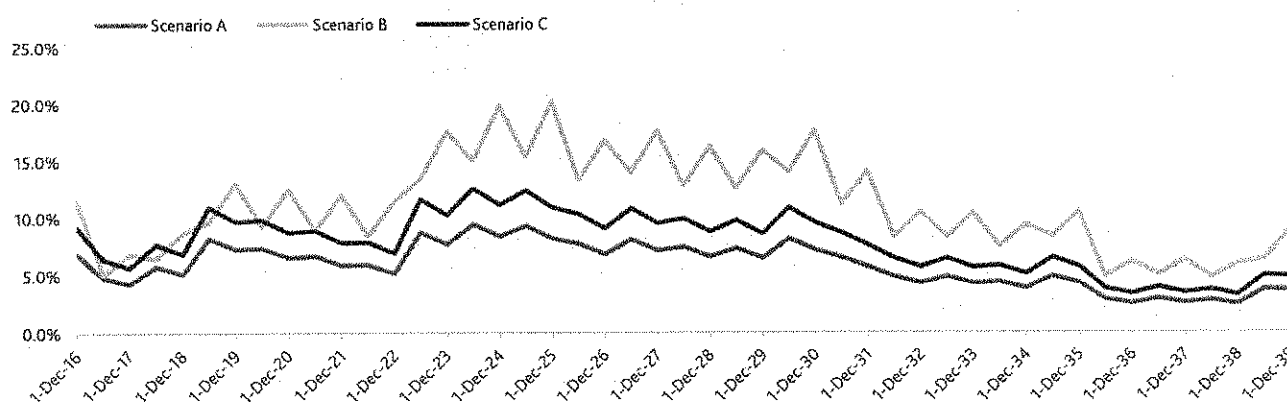
Restructuring Charge (Cents/kWh)



Source: LIPA and the servicers; Moody's calculations

Exhibit 8

Restructuring Charge as a Percentage of a Typical Residential Customer's Total Bill



Source: LIPA and the servicers; Moody's calculations

Forecasting Electricity Consumption

The company monitors the accuracy of each forecast by conducting variance analysis on a monthly basis taking into account weather impacts on kWh sales and deviations from forecast within the customer count. LIPA factors the impact of weather and the growth in self generation, energy efficiencies and the use of electric vehicles into its forecasts.

Exhibit 9 shows LIPA's annual forecast variance for ultimate electric delivery by customer class.

Exhibit 9

Annual Forecast Variance for Ultimate Electric Delivery (MWh)

	2011	2012	2013	2014	2015
Residential	4.3%	-2.4%	-2.7%	-4.3%	0.5%
Commercial	-1.0%	-3.6%	-2.4%	-1.7%	-2.1%
Street Lighting	0.2%	-2.2%	-4.4%	1.7%	-3.8%
Other Public Authorities	5.5%	-13.6%	-4.2%	3.1%	2.5%
Total	1.6%	-3.2%	-2.6%	-2.8%	-0.8%

Note: Negative variance means that the actual electric delivery is lower than the forecasted electric delivery.

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Additional Assets Analysis

Servicing

LIPA, acting as servicer under the servicing agreement, or any successor servicer as the financing order provides, will be responsible for servicing the restructuring property, including: 1) obtaining meter reads; 2) forecasting electricity usage; 3) calculating, billing and collecting the restructuring charges; 4) processing, accounting for and depositing charge collections and making periodic remittances; 5) calculating and implementing the true-up adjustments to the restructuring charges; 6) investigating and handling delinquencies and selling defaulted or written off accounts; 7) responding to inquiries from customers, LIPA or any governmental authority regarding the restructuring property and the restructuring charges; and 8) furnishing periodic reports and statements.

PSEG LI will perform, and is capable of performing, LIPA's key servicing duties, including billing and collecting restructuring charges, meter reading and forecasting electricity usage, among other things. LIPA will be responsible for the true-up adjustments and certain reporting requirements.

PSEG is a publicly traded energy and energy services company. As of September 30, 2015, it had total assets of approximately \$36.5 billion, latest twelve months revenues of approximately \$10.9 billion; and employed approximately 12,700 people. PSEG is the parent holding company of PSEG Power LLC, New Jersey's largest wholesale merchant generator with approximately 13.1 GW of capacity; Public Service Electric and Gas Company (PSE&G), New Jersey's largest regulated electric and gas transmission and distribution utility; and PSEG Energy Holdings L.L.C., which owns a portfolio of leveraged leases and is also pursuing investments in renewable generation.

There is no named backup servicer at closing though the financing order allows for a replacement servicer if the current servicer defaults in its performance obligations. In addition, the financing order allows the servicing fee to step-up from 0.05% to 0.60% of the initial principal balance of the bonds if LIPA is replaced as servicer by a successor servicer not affiliated with the owner of the T&D system assets, pursuant to the securitization documents.

The provision of electric service to customers by LIPA is governed by the Home Energy Fair Practices Act (HEFPA). LIPA's credit and collections practices, including the ability to terminate (disconnect) service, are governed by HEFPA.

Loss Experience

Exhibit 10 shows the annual net charge-offs for LIPA, including net charge-offs of customers as part of LIPA's annual charge-off reconciliation process.

Exhibit 10

Net Charge-Offs as a Percentage of Total Billed Retail Electricity Service Revenues

	As of 12/31/2011	As of 12/31/2012	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015
Billed Electric Revenues (\$000)	3,620,532	3,413,091	3,834,255	3,753,765	3,572,133
Net Charge-Offs (\$000)	24,753	19,750	20,969	24,659	23,948
Percentage of Billed Revenue	0.68%	0.58%	0.55%	0.66%	0.67%

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Days Sales Outstanding

Exhibit 11 shows the average number of days that LIPA's bills remained outstanding during each of the calendar years below.

Exhibit 11

Average Days Sales Outstanding

	As of 12/31/2011	As of 12/31/2012	As of 12/31/2013	As of 12/31/2014	As of 12/31/2015
Average Days Sales Outstanding	38.55	39.23	39.40	37.13	36.78

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Delinquency Experience

Exhibit 12 shows the delinquency experience of LIPA during each of the calendar years below.

Exhibit 12

Average Monthly Delinquencies of Total Annual Billed Retail Electricity Delivery Service Revenues

	2011	2012	2013	2014	2015
30-59 days	\$ 52,766	\$ 50,348	\$ 59,196	\$49,980	\$42,775
60-89 days	\$ 28,940	\$ 28,018	\$ 32,104	\$24,937	\$21,223
90+ days	\$108,208	\$116,791	\$135,828	\$86,419	\$87,580

Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Securitization Structure Overview

LIPA intends to issue one series of tax-exempt, fixed rate bonds, Series 2016A, secured by the collateral on a pari passu basis. Some of the Series 2016A Bonds will be serial bonds, while others will be term bonds, with the term bonds subject to mandatory sinking fund payments. The issuer will have the option to redeem the Series 2016A Bonds with a legal final maturity date on or after [], in whole or in part and in any order, on and after []. All dates in this paragraph will be determined prior to closing.

Securitization Structure Description

Bond Structure

The issuer will make payments on the bonds semiannually, on June 15 and December 15 of each year, beginning in December 2016. Interest will be paid pro rata among the tranches.

All tranches of bonds will be paid pro rata if the bonds are accelerated following an event of default under the indenture. Partial payments of any scheduled payments will be allocated pro rata between tranches of bonds with the same legal final maturity date.

Optional Redemption

The issuer will not have the option to redeem the Series 2016A Bonds with a final maturity date prior to []. The issuer will have the option to redeem the Series 2016A Bonds with a final maturity date on or after [], in whole or in part and in any order, on and after [], at a redemption price of 100% of the principal amount of the Series 2016A Bonds to be redeemed, plus accrued interest to the redemption date. All dates in this paragraph will be determined prior to closing.

Indenture Accounts

The trustee will hold the collection account in its name and will deposit the restructuring charge collections and all other amounts it receives with respect to the collateral. The collection account will consist of five subaccounts: the general subaccount, the excess funds subaccount, the operating reserve subaccount, the debt service reserve subaccount and the upfront financing cost subaccount.

Payment Priority

On each semiannual payment date, or for items 1 through 4 below, on any business day, the trustee will pay or allocate, at the direction of the servicer, all amounts on deposit in the collection account in the following order of priority:

1. to the trustee, i) all fees, expenses and ii) any outstanding indemnity amounts not to exceed \$800,000 in each year;
2. to the servicer, the servicing fee and all prior unpaid servicing fees, capped at 0.60% of the aggregate principal balance of the bonds in each year;
3. to the administrator, the administration fee (\$100,000 per year) and all prior unpaid administration fees;
4. the payment of all other ongoing financing costs to the persons entitled to such payment;
5. to the bondholders, first, any overdue interest (together with, to the extent lawful, interest on such overdue interest at the applicable bond interest rate) and second, interest due on such payment date;

6. to the bondholders, principal due and payable on the bonds as a result of an event of default and an acceleration of the bonds or on the legal final maturity date of a tranche of bonds;
7. to the bondholders, principal for such payment date, sequentially according to the related expected amortization schedule;
8. to the trustee, indemnity amounts in excess of \$800,000 in each year;
9. to the servicer, the servicing fee and all prior unpaid servicing fees in excess of 0.60% of the aggregate initial principal balance of the bonds in each year;
10. to the debt service reserve subaccount, the amount, if any, by which the required reserve level (1.5% of the aggregate outstanding principal balance of the bonds) exceeds the amount in the debt service reserve subaccount as of such payment date;
11. to the operating reserve subaccount, the amount, if any, by which the required operating reserve level (0.5% of the aggregate initial principal balance of the bonds) exceeds the amount in the operating reserve subaccount as of such payment date;
12. any funds in the debt service reserve subaccount in excess of the required debt service reserve level shall be retained in the debt service reserve subaccount and applied to clauses 5 through 7 above on the next payment date; and
13. to the excess funds subaccount, the balance, if any, for distribution on subsequent payment dates.

If funds in the general subaccount are insufficient to make the payments required under items 1 through 9, the trustee will first, draw from amounts in the excess funds subaccount and second, draw from amounts in the operating reserve subaccount, in each case, to make the payments required under items 1 through 9. In addition, if funds in the general subaccount, together with moneys available in the excess funds subaccount and the operating reserve subaccount, are insufficient to make the payments required under items 5 through 7, the trustee will draw from amounts in the debt service reserve subaccount, up to the amount of such shortfall. If funds in the general subaccount are insufficient to make the allocations under item 10, the trustee will draw from amounts in the excess funds subaccount to make such allocations.

The annual true-up adjustment will be calculated to eliminate any amounts in the excess funds subaccount by the payment date immediately preceding the effective date of the next annual true-up adjustment.

Events of Default

The Events of Default under the indenture are:

1. failure to pay interest or redemption price on any bond when due (after a five day cure period);
2. failure to pay principal of any tranche of a bond on the legal final maturity date for such tranche;
3. failure of the issuer to perform a covenant (after a cure period);
4. breach by the issuer of its representations or warranties (after a cure period); or
5. an action violating the financing order or state pledge.

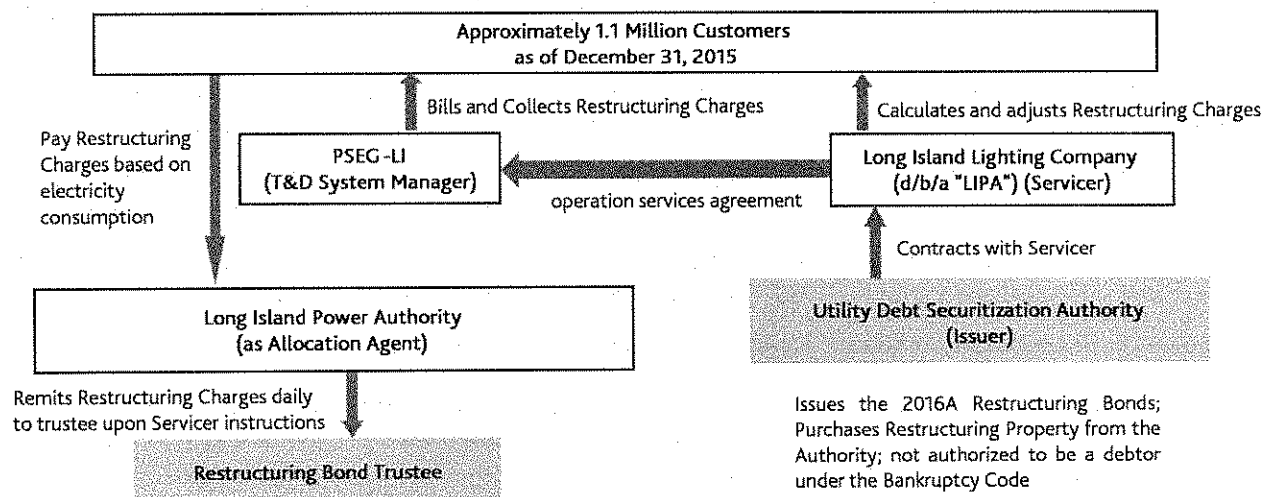
Securitization Structure Analysis

Securitization Parties and Responsibilities

Exhibit 13 provides a general summary of the key securitization parties, their roles and their various relationships to the other parties.

Exhibit 13

Securitization Parties and Responsibilities

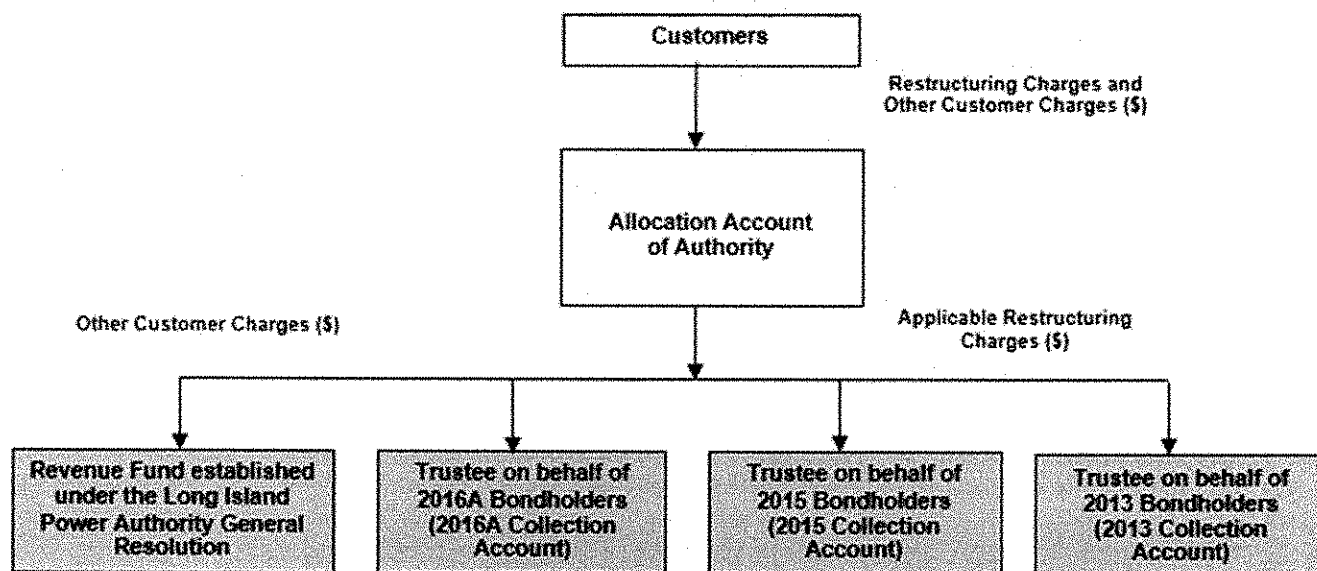


Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Flow of Funds

Exhibit 14 shows a general summary of the securitization's flow of funds: PSEG-LI will bill and collect the restructuring charges from LIPA's customers on behalf of the servicer. The servicer will be required to cause all customer payments (including restructuring charge collections) to be deposited into the allocation account, which LIPA established to hold all payments until the checks clear. Initially, the account will be held by J.P. Morgan Chase Bank. If customers make payments directly to the servicer instead of to the allocation account, the servicer must remit such payments to the allocation account within two business days' receipt by the servicer or LIPA. LIPA, as allocation agent, will control and administer the allocation account for the benefit of the trustee for the holders of the bonds and the trustee for the holders of LIPA bonds. On each business day, the allocation agent must transfer to the collection account the amount of restructuring charge collections that the servicer estimates to have been received and deposited into the allocation account on such day.

Exhibit 14
Flow of Funds



Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

Legal Structure

The primary steps of the securitization are as follows:

1. The securitization law created the issuer, a bankruptcy-remote special purpose corporate municipal instrumentality, and a political subdivision and public benefit corporation of the State of New York. Under the securitization law, the issuer is not authorized to be a debtor under chapter 9 or any other provision of the Bankruptcy Code. The securitization law formed the issuer solely to purchase and own the restructuring property, to issue the bonds which are to be secured by the restructuring property, and to perform any activity incidental thereto. The issuer has no commercial operations.
2. The issuer will issue the bonds under an indenture with the trustee and will use the bond proceeds to purchase the restructuring property from LIPA and to pay the cost of issuing the bonds. The issuer will pledge the restructuring property to secure the bonds.
3. LIPA will use the proceeds from the sale of its restructuring property to retire certain of its outstanding debt. LIPA will act as the servicer of the restructuring property under a servicing agreement with the issuer and as the issuer's administrator under an administration agreement with the issuer. PSEG-LI will act as LIPA's service provider and will perform LIPA's key servicing duties under an operations servicing agreement with LIPA.

Sponsor and Seller

LIPA will be the securitization's sponsor and the seller of the restructuring property. LIPA is a corporate municipal instrumentality and a political subdivision of the State of New York, and is authorized to be a chapter 9 debtor pursuant to its enabling legislation.

LIPA took over as the retail supplier of electric service in the service area in 1998 by acquiring the Long Island Lighting Company (LILCO) as a wholly-owned subsidiary of LIPA through a merger. Since the merger, LILCO has done business under the name "LIPA." LIPA, acting through LILCO provides electric delivery service in the service area.

LIPA is governed by a Board of Trustees (LIPA Trustees) and is generally not regulated by the New York Public Service Commission (PSC) or the Federal Energy Regulatory Commission. LIPA is authorized under its enabling statute to set rates for electric service in the service area without obtaining the approval of the PSC or any other State regulatory body.

Pursuant to LILCO's organizational documents, LIPA conducts and manages LILCO's business and affairs. Accordingly, LILCO is controlled by LIPA.

LIPA and LILCO are parties to a financing agreement providing for their respective duties and obligations relating to the financing and operation of the retail electric business. Under the agreement, LILCO conducts the electric business in the service area and is responsible for providing service to customers in the service area. LIPA and LILCO are also parties to an administrative services agreement pursuant to which LIPA provides personnel, personnel-related services and other services necessary for LILCO to provide electric service in the service area.

To assist LIPA (acting through LILCO) in providing electric service in the service area, LIPA and LILCO have entered into operating agreements to provide them with the operating personnel and a significant portion of the power supply resources necessary for LILCO to continue to provide such electric service. From 1998 through 2013, National Grid plc, certain of its subsidiaries (National Grid subs) or their predecessors performed most such operations.

Beginning in 1998, a National Grid sub was the manager of LILCO's electric T&D system under a management services agreement which expired at the end of 2013. Beginning January 2014, PSEG-LI assumed the role from the National Grid sub. T&D system management services include, among other functions, the day-to-day operation and maintenance of the T&D system, customer service, billing and collection, meter reading and forecasting energy consumption.

In July 2013, New York Governor Andrew Cuomo signed the LIPA Reform Act, codified as Chapter 173, Laws of New York, into law. On March 30, 2015, the New York State Assembly and Senate adopted Chapter 58 of the Laws of New York, 2015, which amended the LIPA Reform Act to authorize the issuer to issue additional restructuring bonds. On April 13, 2015, the Governor signed Chapter 58 into law. On May 13, 2015, the time for filing any challenges to the LIPA Reform Act, as amended, expired and no such challenges were filed.

The LIPA Reform Act effectively shifted the major operational and policy-making responsibilities for the T&D system, including significant responsibilities relating to capital expenditures, budgets and emergency response, from LIPA to PSEG-LI. PSEG-LI's scope of services and LIPA's reserved rights have been adjusted to reflect the shift in operations, management and policy making responsibilities while enhancing LIPA's oversight rights. The LIPA Reform Act also requires that staffing be kept at levels only necessary to ensure that LIPA is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG-LI.

Methodology and Monitoring

The principal methodology used in this rating was Moody's Approach to Rating Securities Backed by Utility Cost Recovery Charges published in June 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on www.moodys.com.

RATING METHODOLOGY

Moody's Global Approach to Rating Securities Backed by Utility Cost Recovery Charges

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1. Scope

This methodology describes our global approach to rating securities backed by utility cost recovery charges ("UCRC" bonds) that are established by special legislation and financing orders issued by utility regulatory bodies. The charges backing UCRC bonds rated by us have been established by state legislation and state utility regulatory bodies in the United States. For UCRC bonds backed by charges authorized by other jurisdictions, we will analyze the specifics of the securitization's legal framework and regulations – and their implications for the quality of the protections afforded to investors – within the general methodology described in this report.

Examples of cost recovery charges include those imposed to cover certain costs of utility companies that had been incurred in a regulated environment but could no longer be recovered because of a change to a more competitive regulatory regime (i.e., charges sometimes referred to as "stranded utility charges") and those imposed to pay for environmental cleanups, clean energy or for the replenishment of reserves established for repair of facilities damaged by natural calamities, such as hurricanes or tornados.

2. Executive Summary

A utility cost recovery charge bond is a bond typically issued by a special purpose entity of a utility, or by a special borrowing conduit, to recover specified costs as authorized by special legislation and a specific financing order issued by a public service utility regulatory body. The bonds are backed by a property right created by the legislation, which provides the right to impose and collect special charges on customers' monthly electric bills.

This credit rating methodology was republished on June 22, 2015 containing an updated monitoring section and minor other editorial updates in the body of the text and in certain footnotes. The content of this Credit Rating Methodology has not been changed.

The credit quality of the bonds depends on the legal strength of the property right, which in turn depends on the specifics of the related legislation and financing order, and on the size and economic strength and stability of the ratepayer base against which the costs will be imposed. Therefore, our credit analysis of cost recovery charge securitizations focuses on both legal and economic factors that can influence whether investors in UCRC bonds will be paid as promised.

On the legal side, we assess the extent to which the legislation that authorizes the cost recovery charges¹ provides clear procedures for insulating the transaction from claims by other parties and is likely to be able to withstand challenges to rescind or alter the legislation prior to the legal final maturity of the securities. Consequently, our analysis focuses on the extent to which the legislation clearly defines (1) a property that entitles the owner of such property – the utility, or, in some cases, a public trust or corporation – the right to charge the fee throughout the life of the security in an amount sufficient to make full and timely repayment of principal and interest on the security, (2) the process the owner of the property must follow to charge the fee, (3) the irrevocable right of the owner of the property to transfer the fee to a special purpose financing vehicle for securitization purposes, (4) the type of financing vehicle authorized to issue securities backed by the fees, and (5) the process to be followed such that the transfer would be viewed as a “true sale” of the rights to the cash flows rather than a pledge of collateral for a financing for transactions that involve the transfer of the property from the utility to the issuer. A true sale would insulate the securitization from a bankruptcy of the utility, protecting securitization investors from potential claims on the cash flows by the utility's creditors. In addition, we assess whether the legislation has a government pledge not to impair the utility's right to collect the charges and the consequences if the government nevertheless does attempt to impair the right.

We also examine the likelihood that other potential claimants, such as other creditors of the financing vehicle if it were to become bankrupt or investors in other securities that have been issued by the utility, might make a successful claim on the cash flows of the securitization. Furthermore, we consider the breadth of the market to whom the charge will be applied and the extent to which the charge might be “bypassable,” that is, the extent to which current or future customers might be categorized as outside the scope of the applicability of the charge.

Our assessment of the overall legal strength of the property right involves qualitative and judgmental factors. Transactions that are strong with respect to each of such characteristics may achieve the highest rating while the impact of weakening any of the attributes would be evaluated on a case-by-case basis.

On the economic side, our analysis focuses on the likelihood that the charges established by the legislation and accompanying regulations will be sufficient to repay the securitization bonds and on whether the charges might become onerous enough to cause pressure to rescind or alter the charges through future legislative or legal actions. As part of that assessment, we evaluate (1) possible changes in the size and composition of the customer base against whom the fee is to be charged, incorporating an evaluation of the breadth and diversity of the customer base, (2) the likely per capita energy usage (in those cases in which the fee charged is based on the usage amount), and (3) the fee rate, including any mechanism built in by the legislation that enables the fee to be reset over time to offset shortfalls that might develop over the life of the securitization (i.e., the transaction's “true up” mechanism). Generally the true-up mechanism is in effect the most important credit protection for UCRC transactions, limiting the risk that the cost recovery charges will be insufficient to pay off the bonds, thereby limiting the need for traditional sources of credit enhancement such as subordination and reserve funds.²

In analyzing a transaction's true-up mechanism, we examine how high rates would need to be set under “stressful” future scenarios to fully pay off the bonds, to assess the risk that onerous future rates might cause pressure to overturn or change the legislation and/or regulations establishing the charges. The variables that we typically “stress” test for UCRC bonds are the base against which the charge is to be

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

¹ Throughout this report we use the terms “cost recovery charges” and “cost recovery fees” interchangeably.

² The true-up mechanism also limits the need to analyze the underwriting of the customer base, since the mechanism adjusts for all shortfalls, including those caused by customer defaults.

applied (usually energy usage) and the servicing fee. To obtain a high rating, we would expect that even in a stressful environment, such as one in which energy usage declined dramatically, the charge per customer necessary to pay off the bonds would be reasonably low both in absolute terms and as a percentage of the customer's energy bill. The specific stresses that we place on the variables are issuer-specific and are determined on a case-by-case basis.

In addition, we analyze the implications of other structural features of the securitization that could affect the risk of investor loss. For example, we examine the risk implications of how the cash flows are allocated among the various classes of investors and the other participants in the transaction, and the extent to which any other sources of funds are likely to be sufficient to offset any remaining shortfalls to investors, whether the shortfalls are temporary ("liquidity") or permanent ("credit enhancement").

3. Analyzing the Risk Factors

Because of the unique characteristics of this highly regulated asset class, our credit analysis of UCRC securitizations focuses primarily on the legislation and the true-up mechanism. The degree of certainty that the fees generated through the legislation will be sufficient to pay off the securitizations in full is a complementary aspect of the analysis. .

Depending on the risks and mitigants in the relevant jurisdiction, transaction ratings will typically be positioned between the government rating and the country ceiling. Risks that could lead us to determine transaction ratings to be lower than the country ceiling include, for example, continued high levels of debt burden in a utility system. Such high levels of debt, if deemed unsustainable in the long term, may lead to political pressure to adjust the regulatory framework around the system deficit, with some potential negative impact on the related securitization transactions.

In the following sections, we describe the factors that typically lead to a high degree of certainty and thus high ratings on the bonds.

3.1 Protection against Future Impairment of the Right to Collect the Charges

Utility cost recovery charges are established by special legislation that authorizes the creation of a property right to collect future surcharges on customers' monthly electricity bills as the means to pay back the UCRC bonds. Consequently, we analyze the extent to which investors are protected against the enactment of future legislative changes that would weaken that right. For example, investor risk would be mitigated in a situation in which (1) the legislation contained a pledge by the jurisdiction not to impair the right to collect the special charges until the maturity of the bonds and (2) violation of that pledge would be a violation of law ³.

3.2 Irrevocability of the Financing Order

The legislation is typically accompanied by a financing order issued by the public service commission that authorizes the utilities to impose and collect the surcharges on the customer's monthly electric bill during the term of the bonds. Our analysis assesses whether the financing order is irrevocable, which would protect investors against future adverse changes that may reduce the charges backing the bonds.

3.3 Sufficiency of the Charges and the True-Up Mechanism

The charges are usually assessed as an amount linked to a customer's energy usage. Our analysis considers whether the financing order places any limits on charges – e.g., caps on the levels of charges or limits on the length of time that the charges can be imposed – that might cause the collections to be insufficient to provide for timely payment of the principal and interest on the UCRC bonds. In addition, we analyze whether the period over which the charges are allowed to be levied provides sufficient cushion to pay off the bonds by maturity in the event that collections come in more slowly than originally projected.

³ Violation of the non-impairment pledge would be a violation of the Contract Clause and the Takings Clause under the Federal and State constitutions.

As part of that analysis, we evaluate the power of any true-up mechanism that is provided for in the legislation and detailed in the financing order to correct for shortfalls that may develop over the life of the securities. A true-up mechanism typically adjusts future fee rates on a scheduled periodic basis (e.g., semiannually or annually) to correct for any under- (or over-) collections in a preceding period and to ensure the full and timely payment of future scheduled debt service, based on updated usage forecasts. The greater the frequency with which the true-up adjustments are made, the less likely that investors will suffer a shortfall at the final maturity date.⁴

That is particularly important as the security approaches the final maturity date; frequent rate adjustments based on then-current projections mitigate the risk that actual collections will deviate substantially from those projections, limiting the possibility of shortfalls at the final maturity date. Consequently, our analysis assesses the conditions under which more frequent true-ups are allowed, especially near the final maturity.⁵

3.4 Non-Bypassability of the Charges

We evaluate whether the charges are “non-bypassable,” that is, whether the charges must be collected from all existing and future customers of the utility or its successors or assignees within the utility’s service territory, and whether the financing order provides that a severance fee be charged to customers who switch to other service providers within the territory during the life of the bonds. We evaluate any exceptions to the non-bypassability rule, and consider the materiality of those exemptions to the cash collections. Charges that cannot be bypassed (i.e., those that cannot be avoided by the customers in the utility’s service area) ensure a continuing payer base for the charges, leading to less risk for investors. As described in the Structural Features section (Section 3.8), the power of the true-up mechanism to protect investors is dependent on the non-bypassability of the charges. As a result, non-bypassability (with limited, immaterial exemptions) has been a key factor behind the high ratings that are typically assigned to these transactions, without the need for considerable protection from traditional types of credit protection, such as reserve accounts or subordination.

3.5 Bankruptcy of the Utility

For structures in which the initial owner of the property is a utility, a bankruptcy of the utility could expose securitization investors to the risk that other creditors of the utility might make a claim on the cost recovery charges or that payments to securitization investors might be delayed as a result of an imposition of an automatic stay on payments from the utility company.^{6,7} However, that risk would be limited if it were clear that a bankruptcy court would view the transfer of the rights to the charges as a “true sale” of those rights, rather than as a financing of the company. As a result, we analyze whether the legislation clearly establishes the utility’s right to receive and transfer the rights to the charges and provides unambiguous procedures for transferring those rights to the financing vehicle as a true sale, and whether those procedures are followed in the financing order.

In cases where the utility is the servicer of the transaction, we analyze whether a bankruptcy of the utility could lead to a disruption in servicing, e.g., billing and collecting. However, given the essential service provided by the utility, we expect that government authorities would intervene to prevent any disruption in servicing that might result from a bankruptcy. As a result, where the servicer is a regulated utility, we view operational risk as low. Consequently, we typically would consider a transaction to be consistent with a Aaa rating even if the servicer were not investment grade, as long as the transaction were structured with some mitigants for operational risk, such as the inclusion of a backup servicer and/or provision for additional liquidity.⁸

⁴ Generally, the charges collected rank senior to other charges of a utility system and represent only a small amount of the total revenues of such system.

⁵ Transactions typically allow for more frequent true-ups during the “tail period” between the transaction’s stated “expected” maturity (determined by the sponsor) and the “legal” final maturity. The legal final maturity is the important date from our rating perspective, the date by which all principal must be repaid.

⁶ In some transactions, the property is created by law for the benefit of a public trust or corporation that also is created by the same law. In such cases, the true sale risk would be non-existent as there is no sale or transfer of the property.

⁷ For a discussion of how Moody’s analyzes legal risks in structured finance transactions, see Moody’s Related Research section at the end of this report.

⁸ The rating standard for a backup servicer likely would be lower than investment grade, but would depend on the specific facts and circumstances of the transaction and servicer.

In addition, we analyze whether the bankruptcy of the utility could cause a disruption in the remittance of payments by the utility to bondholders. Such a disruption could occur if the remittances of the charges were “commingled” with the other funds of the utility and the bankruptcy court ordered a halt to payments until proper ownership of the funds could be sorted out. Our analysis includes an assessment of the ways in which the utility separates the cost recovery charges received from its other funds and the frequency with which it transfers the funds to the trust.

3.6 Bankruptcy of the Financing Vehicle

Another potential risk to investors in UCRC securitizations is a bankruptcy of the financing vehicle. That could expose investors to the risk that other creditors of the vehicle might make a claim on the cost recovery charges or that payments to investors might be delayed by the imposition of an automatic stay. Consequently, we analyze (1) the likelihood that a third-party creditor would be able to successfully petition the owner of the assets (i.e., the financing vehicle) into an involuntary bankruptcy proceeding or (2) the likelihood that the owner of the assets would voluntarily seek the protection of the bankruptcy courts.

To analyze the likelihood of an involuntary bankruptcy, we assess the characteristics that would mitigate that risk, such as if the financing vehicle had (1) no assets other than the right to the cost recovery charges, (2) no indebtedness other than the securitization debt, (3) limited activities that could give rise to contractual or other liabilities, and (4) agreements with the sponsor and other contracting parties not to petition for the dissolution, liquidation or bankruptcy of the securitization vehicle. Similarly, factors that would mitigate the risk of a voluntary bankruptcy would include (1) charter documents of the owner of the assets that require directors who are independent of the utility and (2) a unanimous vote of directors as a condition to filing a voluntary bankruptcy.

3.7 Economic Factors

Even if the financing order is irrevocable, the charges or the law that authorizes them could be subject to challenge in the courts or to future political pressure to rescind or change them through legislation. That is more likely the higher the charges, i.e., the more the economic incentive for a challenge or in circumstances where the financial imbalances in a utility system increase. Consequently, our economic analysis focuses on the size of the cost recovery charge, both in absolute terms and as a percentage of the customer's energy bill. Typically the percentage of a residential customer's monthly bill devoted to the cost recovery charge is less than 10%.

We typically also look at stressful collection scenarios. For example, in one scenario, we assume (1) that energy usage falls short of the utility's projections⁹ by a progressively increasing amount each year (typically 5% per year), (2) that forecasted collections in peak usage months do not materialize (for example, 100% of the collections in the peak month and 50% of the collections in the second highest-usage month), and (3) that the servicing fee is considerably higher than the current, “normal,” servicing fee, representing the fee that would be required if the original servicer needed to be replaced in a stressful environment. In another scenario, we typically assume that energy usage is lower than projected by a set amount throughout the life of the securitization (typically 25%). For highly rated transactions, we would expect that the cost recovery charge would remain relatively low even in those highly stressful scenarios.

While the specific stresses that we place on the variables have been quite similar to date, this reflects the fact that all rated transactions to date have involved requests for the highest ratings and been supported by highly diverse, broad-based service areas. However, in general, stresses are issuer-specific and are determined on a case-by-case basis. One of the factors that we use to determine the appropriate stress level for a transaction is the variability of the base against which the charge is applied, for example, the population in the service area or the energy usage in the service area. Customer bases that are less broad-based and diversified tend to be more variable; as a result, we would apply more severe stresses in those situations.

⁹ We typically assess the reasonableness of the utility's projections by analyzing (1) the historical energy usage in the utility's service region and the variances between past projections and actual outcomes, and (2) the likely growth in electricity usage in the service area of the utility, taking into account the projected economic growth in the region and the possible competitive impact of technological advances, such as those in the development of solar energy.

In particular, we evaluate the economic diversity of the utility's service region to assess the potential variability in its economic health, which tends to drive changes in population and energy usage. An area that relies on multiple industries for economic growth will likely have a more stable business climate than an area that is dependent on the fortunes of one industry. In the latter case, the area's prospects will falter if that particular industry runs into hard times.

We also consider the mix in the customer base among residential, commercial, and industrial users. A utility with a large residential base relative to commercial and industrial users will tend to have less volatility in energy consumption, since energy consumption by commercial and industrial operations is more closely tied to the business cycle. Furthermore, residential customers are less likely to quickly embrace new energy production technologies and are less likely to cut back energy consumption dramatically if the price of energy were to rise. The higher variability of a commercial and industrial base can be exacerbated further if the service area's customer usage is concentrated in a few large commercial or industrial operations, which could make the overall energy consumption vulnerable if those entities were to decline or leave the area.

3.8 Structural Features

The key structural feature of UCRC transactions is the true-up mechanism. Our rating is highly dependent on the extent to which the mechanism adjusts the charges to correct for past shortfalls or forecasted future shortfalls. The effectiveness of those rate changes in raising funds depends, in turn, on how easily customers can escape the charges and how sensitive electricity usage is to increases in the utility charges. Therefore, our analysis of the true-up mechanism goes together with our analysis of how bypassable the cost recovery charges are and how easily customers can cut back on electricity usage (through alternative sources of energy or conservation). To be consistent with a particular rating, a strong true-up mechanism combined with non-bypassable charges mitigates the need for credit enhancement in the form of alternative sources of funds.

In addition, our analysis of the credit risk of a UCRC transaction incorporates our assessment of the implications of the transaction's cash flow allocation structure (sometimes referred to as the cash flow "waterfall"). In particular, we focus on the seniority of principal and interest payments to the bond's investors *vis-à-vis* payments to other participants. In addition, we analyze the extent to which the transaction has an alternative source of liquidity to pay principal and interest in the event that there is a temporary interruption in the flow of the cost recovery charges. For example, in many transactions there is a capital or reserve account with funds sufficient to pay interest for at least 1-2 months, if needed. Furthermore, we assess the extent to which the credit enhancement that is available in the transaction is likely to be sufficient to offset any shortfalls that might develop in the period between the final true-up adjustment and the maturity of the bonds.

4. Monitoring

In monitoring UCRC transactions, we apply the key components of this methodology. More specifically, we analyze, whether bond balances are in line with the scheduled principal amortization, which indicates the extent to which payments have been in line with our original expectations.

We review the periodic information received and look at whether there has been a draw on the reserve accounts. This data point provides further clues as to the steadiness of the cash flows and accuracy of true-up adjustments.

In addition, we analyze the factors that determine the future strength of the transaction. For example, we monitor any legal or political developments that could indicate an increased risk of changes in the legislation that could impair future cash flows to the transactions. Such risk may materialise, for example, in case of continued high financial imbalances in the system that may lead the system deficit to be viewed as unsustainable over the long-term.

Depending on the jurisdiction, we also follow the rating of the utility as a proxy to assess any changes to the economic health of the service region and the potential for changes in the size and composition of the ratepayer base. Furthermore, we monitor the rating of the utility collecting the charges (as an indicator of its financial condition) to track the risk, typically quite small, that a bankruptcy could lead to disruption in billing and collections and in the remittance of payments to the bondholders.

In other instances, we may be more concerned with the behavior of the regulator of the utility system and less with individual utility companies. This could lead to a lower rating in the space between the local currency ceiling and the sovereign rating or the utility rating.

Thus changes on our expectations and other analytical components could have an impact on the rating of the securities and may result in a reassessment of the rating.

Moody's Related Research

The credit ratings assigned in this sector are primarily determined by this credit rating methodology. Certain broad methodological considerations (described in one or more secondary or cross-sector credit rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments in this sector. Potentially related secondary and cross-sector credit rating methodologies can be found [here](#).

For data summarizing the historical robustness and predictive power of credit ratings assigned using this credit rating methodology, see [link](#).

Please refer to Moody's Rating Symbols and Definitions, which is available [here](#), for further information.

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CONFIDENTIAL AND PRIVILEGED LEGAL ADVICE

ISSUES LIST – PROVINCIAL SUPPORT AGREEMENT DRAFT MAY 12, 2017

1. Guarantor will be the Minister of Energy and the Minister of Finance on behalf of the Province (see. 5(3) of proposed Fair Hydro Act, 2017).
2. Description of proposed beneficiaries of guarantee is very broad. Provides that beneficiary is Indenture trustee under master trust indenture on behalf of itself and all persons that have claims against a Financing Entity secured under the master trust indenture. Persons range from the Financial Services Manager (OPG) to holders of various types of debt and hedge counterparties. Need to clarify which obligations the Province is being requested to guarantee and under what various agreements to determine scope and limit of guarantee. Is there a term sheet for the proposed financing to be issued by the Financing Entity? Is there a request for a guarantee of payment on other back-up or ancillary borrowing and obligations other than those issued in the market? Is there a draft of the Master Trust Indenture?
3. Why does the term of the guarantee continue for one year after the obligations have been repaid?
4. Performance Guarantee – This is also a very broad guarantee of performance of the IESO and all electricity services providers in favour of the same broad group of beneficiaries. How can the Province ensure that these entities perform their obligations practically? Also the Province is to protect beneficiaries from any commingling risk. It is noted that in the event the performance guarantee is unenforceable against the Province, there would be a separate legal obligation in the provincial support agreement to indemnify beneficiaries for any losses. Would there be any trigger events applicable to the obligation to indemnify as there are for the payment guarantee. If not, is this an issue for accounting treatment purposes? Also, is there an overlap between the performance and payment guarantee? So long as the funding obligations are paid on time by the financing entity, is there a need for other guarantees from the Province? Note that the Province does have immunity from specific types of enforcement under the Proceedings against the Crown Act. Is there a sample term sheet for the Master Sale and Servicing Agreement? Which provisions of the proposed bill are being relied on for this – is it section 5(2)? section 33. There doesn't seem to be a mechanism in the Act to replace the IESO as servicer. Should the Guarantee specify that the Province can appoint a replacement servicer?
5. Payment Guarantee Event – Regarding (B) and (C), the interpretation of when the triggering event has occurred will be an issue – is there a way to make it more objective or how can this be handled if there is a dispute? Regarding (D), think that there is going to be more discussion of the need for this provision from a business perspective. However, is this assuming, that the Province is guaranteeing both long term and short

term funding obligations? Need to clarify when and which obligations the province will be guaranteeing?

6. Payment Guarantee – Again it will be necessary to clarify which obligations the province is guaranteeing to understand what the range of payments to be made are. Also, (y) does not seem acceptable to the Province from a business perspective.
7. Limits under Guarantee – The guarantee wording should be clear so that the Province is guaranteeing payment of certain debt or specific obligations only and the Province's liability should be capped. Province should not be exposed to the risk of any other types of damages or losses.
8. Priority of Payments – Until we know who the beneficiaries are and with respect to what obligations, it is difficult to comment on this.
9. Subrogation – Need to ensure that the Province has appropriate recovery rights and not sure that it is appropriate that all beneficiaries are paid in full before Province gets subrogation rights. Also there is no acceleration here and Province really pays on an ongoing basis so how should subrogation work in such a case.
10. Conditions Precedent – Need to know what they are proposed to be.
11. Representations – Need to know what they are proposed to be as Province does not typically provide representations in connection with guarantees it provides.
12. Confidentiality Obligations – Thought the guarantee is part of a public financing so wouldn't the terms all be known?
13. Legal Opinions – Content, who will be providing them and to whom would they be provided.

General Questions on proposed legislation and interaction with guarantee:

14. General review of relevant sections would be appreciated and how the provisions fit with the requirements of the financing. In particular, s. 5, 13, 19, 21, 22, 33, 41 par 7

Ministry of Finance LSB
May 29, 2017

Provincial Support Arrangement



Here are some questions to frame our discussion at 9 a.m. this morning, based on the May 12th version of the Term Sheet:

1. Should the Province's support covenant run in favour of the indenture trustee (for beneficiaries) or only the finance entity and be pledged? This may impact matters such as whether the Province is seen as a 'co-issuer' under US securities laws and perhaps the Province's accounting treatment.
2. Should the support covenant be given in respect of all potential claimants from the financing entity(ies), or only specified creditors? For example, should the 'subordinated notes' be given the full benefit of the support covenant?
3. Should the support covenant be given up-front in an open-ended, program-wide fashion, or be given in relation to individual transactions and specified creditors of the financing entity at the relevant time of transacting and only for the duration of the relevant underlying obligations?
4. Should the support covenant purport to extend to more than one financing entity?
5. Extending the arrangement to 1 year beyond the latest obligation (broadly construed) essentially means the support covenant will hang out there indefinitely – is this intended?
6. Is the scope of the "performance guarantee" (i.e., servicing, commingling; EV's and IESO) appropriate? Should we make clear that it would not extend to "seller" obligations arising under the MSSA? Can the Province commit to "perform or cause the performance" as a powers matter?
7. Consider the deletions of the "Performance Guarantee Event" concept. As marked up, the performance guarantee would not require any process to first pursue remedies against IESO.
8. If a "payment guarantee" is to be provided, it will raise issues for the Province, including accounting treatment and scope of the support undertaking. Has this sort of investigation been undertaken by the Province at this point?
9. Consider the overall scope of the "payment guarantee event" provision. Issues include the risk that an amendment of the Act or Regulation has a non-material, incidental impact on the timing of payment (i.e., the receipt of funds from an EV), which triggers an effective put at a premium. Another is that a lower court finding of *ultra vires* could trigger the obligation, rather than a "final, non-appealable decision".
10. Should the support arrangement extend to cover "invalidity" or "unenforceability" (see (C) under "Payment Guarantee Event") that arises for reasons other than the validity of the Act and Regulation (e.g., if the actual funding obligation, which the Province may not even be aware of, is impugned for an unrelated reason, such as entity governance or contracting issues)?

11. The “market disruption” provision (see (D) under “Payment Guarantee Event”) needs considerable further thought and refinement (e.g., as proposed, the event is based on the ability to refinance the particular funding obligations, rather than “general market disruption”). Is the Province prepared to be a standby purchaser of any funding obligations in any market-based illiquidity scenario? Note that private market liquidity or “extendable note features” may be available at a cost. In any event, support from the Province of this type should probably only be addressed very specifically and at the time of the specific transaction and narrowly with respect to the obligations for which this sort of protection is specifically required. Note that depending on the maturities incurred under the financing plan, this could cause a major funding requirement for the Province.
12. The “stand-in” payment provisions contemplated in clause (x) under “Payment Guarantee” need to be better understood. Assuming that they result in the rating of any bonds being downgraded to the Province’s then rating, should the Province have a redemption option in that scenario?
13. The “put at a premium” provisions contemplated in clause (y) under “Payment Guarantee” would need to be refined so that the entire structure (i.e., all related finding obligations, such as swaps, sub debt and liquidity commitments) would be ‘unwound’ in total, rather than only certain debt to avoid standing or perpetuating attendant obligations. Is the 101% pay-out always appropriate? If the Province is liable for payments under obligations, will it need certainty as to the underlying terms and conditions?
14. What is the consequence of the market disruption scenario described in (D) under “Payment Guarantee Event” – it doesn’t seem to be covered under “Payment Guarantee”?
15. The postponement of subrogation rights is a problem. In effect, a payment to a senior ranking creditor would provide credit enhancement to all junior ranking obligations which may not have been the intended beneficiaries of the support arrangement (including service providers and sub debt). The general approach to subrogation needs to be considered at the time of incurrence of a funding obligation in relation to the particular scenario and circumstances.
16. “Notice”, “Closing”, “Governing Law” and other mechanics will need to be revised as required to the extent that the provision of support is intended to be transaction-specific, creditor-specific, etc.
17. To the extent that the support is given up-front, the Province will need to have the benefit of its own very specific condition precedents, including to approve each future transaction and finding obligation – would this disrupt the accounting treatment anticipated for OPG based on excessive control over financings?
18. Consider whether accepting or acknowledging “customary representations” and “customary confidentiality obligations” in this context makes sense. Customary for the Province?
19. Has anyone considered the Province’s related governance requirements and related due diligence (e.g., the implications of a US offering under US securities laws). In the absence of a structure and contracts, how can the Province be assured that it is not

inadvertently becoming liable for unintended obligations, duties and liabilities (e.g., servicer buy-backs; "servicer advances"; entity-level tax payments; etc.)?

20. Has the Province's own accounting treatment for these been investigated? What limitations should be tabled at this stage?

21. Does the Province have concerns regarding potential for incongruences between the level of actual "independence" from the Province and public perception in relation to the OFHPA generally?

RatingsDirect®

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

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OVERVIEW

- We affirmed our ratings on 68 classes from 31 stranded cost securitizations.
- All of the transactions are backed by stranded assets created by statute with credit enhancement provided by true-up mechanisms and reserve accounts supporting our 'AAA (sf)' ratings in accordance with our criteria for stranded cost securitizations.

NEW YORK (Standard & Poor's) Feb. 25, 2013--Standard & Poor's Ratings Services today affirmed its ratings on 68 classes from 31 stranded cost securitizations (see list).

The affirmations reflect the transactions' ongoing stable performance and their continued ability to pay interest and principal in a manner commensurate with an 'AAA (sf)' rating stress, in our view.

Stranded cost securitizations are typically backed by stranded assets created by statute with credit enhancement provided by true-up mechanisms and reserve accounts. As currently constructed, the enhancement supports our 'AAA (sf)' ratings in accordance with our criteria for stranded cost securitizations. These securities traditionally have been created under state legislation in conjunction with the state utility commission, with the utility as the

seller/servicer of the assets. Key features of the deals include:

- There are irrevocable statutory provisions and regulatory approvals, including the creation of mandatory periodic true-up of a nonbypassable transition charge and an absolute transfer and first-priority security interest in transition property;
- The true-up mechanisms are in place to ensure the transition charge can be adjusted to reflect any deficit in collections, as well as any other credit enhancement accounts; and
- There are typically cross-collateralization features such that all the customer classes help pay down the bonds. There may be certain deals that have rate caps and/or do not allow cross-collateralization.

For more information on legal and economic defeasance, please see "Securitizing Stranded Costs," published Jan. 18, 2001 on RatingsDirect.

As part of our regular surveillance, we reviewed and affirmed 68 classes from 31 stranded cost transactions.

Standard & Poor's will continue to monitor the securitizations and take rating actions as we deem necessary according to our criteria.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

- Standard & Poor's To Explicitly Recognize Credit Stability As An Important Rating Factor, Oct. 15, 2008
- Principles-Based Rating Methodology for Global Structured Finance Securities, May 29, 2007
- Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006
- Securitizing Stranded Costs, Jan. 18, 2001

RATINGS AFFIRMED

AEP Texas Central Transition Funding II LLC

A

Rating

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A2	AAA (sf)
A3	AAA (sf)
A4	AAA (sf)
A5	AAA (sf)

AEP Texas Central Transition Funding LLC
2002-1

	Rating
A-4	AAA (sf)
A-5	AAA (sf)

Atlantic City Electric Transition Funding LLC
2002-1

	Rating
A-3	AAA (sf)
A-4	AAA (sf)

Atlantic City Electric Transition Funding LLC
2003-1

	Rating
A-2	AAA (sf)
A-3	AAA (sf)

Centerpoint Energy Restoration Bond Company, LLC

	Rating
A-1	AAA (sf)
A-2	AAA (sf)
A-3	AAA (sf)

CenterPoint Energy Transition Bond Company II LLC
A

	Rating
A3	AAA (sf)
A4	AAA (sf)
A5	AAA (sf)

2008

	Rating
A-1	AAA (sf)
A-2	AAA (sf)

CenterPoint Energy Transition Bond Company LLC
2001-1

	Rating
A4	AAA (sf)

2008

	Rating
A-1	AAA (sf)
A-2	AAA (sf)

Consumers Funding LLC

2001-1

Rating

A-5 AAA (sf)

A-6 AAA (sf)

Detroit Edison Securitization Funding LLC (The)

2001-1

Rating

A-5 AAA (sf)

A-6 AAA (sf)

Entergy Gulf States Reconstruction Funding I LLC

A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

Entergy Texas Restoration Funding, LLC

Senior Secured Transition

Rating

A-1 AAA (sf)

A-2 AAA (sf)

A-3 AAA (sf)

FPL Recovery Funding LLC

A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

A-4 AAA (sf)

JCP&L Transition Funding II LLC

2006-A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

A-4 AAA (sf)

JCP&L Transition Funding LLC

2002-A

Rating

A-3 AAA (sf)

A-4 AAA (sf)

Louisiana Public Facilities Authority-EGSL

2008

Rating

A-1 AAA (sf)

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A-2 AAA (sf)
A-3 AAA (sf)

Louisiana Public Facilities Authority-ELL
2008

Rating
A-2 AAA (sf)
A-3 AAA (sf)

Massachusetts RRB Special Purpose Trust 2005-1
2005-1

Rating
A-4 BEC AAA (sf)
A-4 AAA (sf)
A-4 CEC AAA (sf)

Massachusetts RRB Special Purpose Trust WMECO-1

Rating
A AAA (sf)

MP Environmental Funding LLC
A

Rating
A-1 AAA (sf)
A-2 AAA (sf)
A-3 AAA (sf)
A-4 AAA (sf)

MP Environmental Funding LLC
B

Rating
Series B AAA (sf)

PE Environmental Funding LLC
A

Rating
A-1 AAA (sf)
A-2 AAA (sf)
A-3 AAA (sf)
A-4 AAA (sf)

PE Environmental Funding LLC
B

Rating
Series B AAA (sf)

PSE&G Transition Funding II LLC
2005-1

Rating
A-3 AAA (sf)

Standard & Poor's Reviews, Affirms, 68 Classes From 31 Stranded Cost Transactions

A-4 AAA (sf)

PSE&G Transition Funding LLC
2001-1

Rating

A-6 AAA (sf)

A-7 AAA (sf)

A-8 AAA (sf)

PSNH Funding LLC
2001-1

Rating

A-3 AAA (sf)

Rockland Electric Company Transition Funding LLC
2004-1

Rating

2004-1 AAA (sf)

RSB BondCo LLC
A

Rating

A-2 AAA (sf)

A-3 AAA (sf)

TXU Electric Delivery Transition Bond Company LLC
2003-1

Rating

A-4 AAA (sf)

TXU Electric Delivery Transition Bond Company LLC
2004-1

Rating

A-3 AAA (sf)

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Criteria | Structured Finance | ABS: Securitizing Stranded Costs

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Securitizing Stranded Costs

(Editor's Note: We originally published this criteria article on Jan. 18, 2001. We've republished it following our periodic review completed on Dec. 1, 2016. As a result of our review, we updated the contact information and the related criteria, and corrected a reference in the section "Adequate Provision.")

Electric utilities historically have enjoyed protected monopolistic status, in return for an obligation to provide service to the customer base whenever requested. In return, utilities have made significant long-term investments and entered into long-term power purchase contracts with the expectation that these would be recoverable through customer rates. In 1992, the enactment of the National Energy Policy Act introduced wholesale electric competition into the industry. Since then, almost half the states have taken steps toward a competitive retail market by legislating or ordering frameworks for "retail access," through which all customers will be able to choose their own electric generation supplier. With a competitive market taking shape, many utilities have found themselves saddled with significant unrecoverable contractual and sunk costs, generically known as stranded costs. These stranded costs are not new, but rather have already been approved by regulators and are incorporated in existing utility rates as part of traditional cost-plus regulation. If utilities are to compete in a deregulated market, however, they cannot pass these stranded costs along to customers. In many cases, the inability of a utility to recover a significant portion of these costs would result in significant financial deterioration, and in the worst cases, insolvency.

As noted, many legislatures and state regulatory commissions have established the means by which utilities can avert financial deterioration while also providing customers with lower rates. Asset-backed securitization is one such alternative. In several states, such as California, Pennsylvania, Massachusetts, Texas, New Jersey, Michigan, New Hampshire, Connecticut and Illinois, legislatures have enacted laws that enable utilities to finance the recovery of at least a portion of their stranded costs by issuing bonds backed by a statutory right to recover stranded costs.

In December 1997, the three California investor-owned utilities: Pacific Gas & Electric Co., Southern California Edison Co., and San Diego Gas & Electric Co., securitized more than \$6 billion of their approximately \$28 billion of total stranded investment. During 1998, Illinois Power Co. securitized \$864 million followed by Commonwealth Edison Co.'s \$34 billion securitization transaction. In 1999, one Massachusetts utility and three Pennsylvania utilities completed securitization transactions. Boston Edison Company issued \$725 million of rate reduction certificates. PECO Energy Co. issued \$4 billion, PP & L Inc. issued \$2.42 billion and West Penn Power Company issued \$600 million of transaction bonds. In 2000, PECO issued an additional \$1 billion and in 2001, utilities in New Jersey, Connecticut, Michigan, and Texas may come to market with rate reduction bonds.

Utilities in states that have not yet addressed industry restructuring through legislative action or regulatory order, such as Indiana, Kentucky, Florida, and North Carolina, are generally low-cost producers with limited, if any, stranded assets. These states are much less motivated, therefore, to pursue industry restructuring, let alone securitization, at the present time. Whether or not these states ultimately pass relevant legislation, however, the relative competitive standing of their utilities will inevitably be diluted as high-cost utilities in other states shed a substantial portion of their high-cost assets through securitization.

Standard & Poor's believes that securitization of stranded costs is at least neutral, and generally positive for utility credit quality. The utility acquires cash up front, instead of receiving an increasingly at-risk revenue stream over time. Proceeds of the securitization are expected to be used principally to shrink a utility's total capitalization structure, including retiring debt that carries a higher coupon than that borne by the highly rated securitized bonds. In most cases, these interest savings are passed along directly to customers in the form of lower rates. Generally, the amount of rate reduction bonds that the utilities issued was designed specifically to generate a legislatively mandated rate reduction for customers.

Business and Legal Overview

What Are Stranded Costs?

Stranded costs are broadly defined to include any costs that were incorporated in the traditional regulatory cost-plus scheme that cannot be passed on to customers in a competitive marketplace. The most significant of these stranded costs are investments in high-cost nuclear and fossil plants. They also include deferred and capitalized operating costs, conservation and economic development expenditures, nuclear decommissioning costs, and long-term contractual obligations with high cost nonutility generators.

In the past, utilities constructed large, centrally located plants to gain economies of scale in producing electricity. Extremely long construction lead times and overly aggressive demand forecasts caused management to err on the side of oversupply to meet customer demand. Furthermore, the monopoly environment meant utilities lacked a strong incentive to contain costs. Indeed, the larger a utility's rate base was, the more investment on which the utility could earn a return. In addition, costs were exacerbated by circumstances. The last round of base-load construction occurred in the late 1970s and early 1980s, which was an era of high inflation and high interest rates. Finally, the nuclear incident at Three Mile Island in 1979 resulted in heightened Nuclear Regulatory Commission supervision, extending the timetable for plant completions and elevating capital costs significantly.

Since that time, new technologies have greatly reduced the cost of building generating facilities. Even more importantly, the economics of building smaller plants have continued to advance. The lead time for construction has been drastically reduced, from as much as 10 years to as little as 18 months. This reduction is in part due to the construction of much smaller-scale highly efficient plants. As a result, the cost of incremental generation today is significantly lower than the embedded cost of plant of most utilities. The differential is most evident in nuclear plants. For instance, the 1,143 megawatt (MW) Nine Mile Point 2 nuclear plant, operated by Niagara Mohawk Power, was completed in 1988 at a cost of about \$5,000 per kilowatt (kW), after a construction period of more than 10 years. This compares with a 500 MW gas-fired combined-cycle plant today that can be built in about 18 months at a cost of \$450 to \$550 per kW. While prudence hearings did lead to significant write-offs during the rate base proceedings of Nine Mile Point 2, the bulk of these costs were simply included in rates and are now being recovered from customers over a lengthy period of time.

Developments in Industry Environment

The enactment of the National Energy Policy Act of 1992 (NEPA) marks the beginning of the end of the last major government-protected monopoly. NEPA authorized the Federal Energy Regulatory Commission (FERC) to mandate

that utilities become open-access common carriers for wholesale electric sales, known as wholesale wheeling. Wholesale sales are bulk power sales between utilities or between a utility and a third-party producer. If two utilities are not interconnected, they would need access to a third party's transmission network to complete such a transaction.

The ability of a utility to sell power to an end user that is not within its franchise service territory, or the sale of power from an independent power producer to an end user, is called "retail wheeling." Currently, utilities are not permitted to engage in retail wheeling. However, retail customers, aware that there may be cheaper power sources than their current supplier, are pressuring state regulators to permit them to buy power from alternative suppliers. While most regulators agree that competition will lower the price of power, some assert that the objective is not merely to lower rates, but to provide customers with the option to choose their power provider. The vast majority of utilities and regulators concur that retail wheeling is inevitable, so states have had to grapple with how to make the transition from a regulated to a competitive environment. As mentioned earlier, many states have passed laws to phase in direct access to all customers and most of these legislative initiatives include securitization of stranded costs as a means of reducing utilities' financial exposure to a competitive retail environment.

Recovery of Stranded Costs

Vertically integrated electric utilities provide customers with three basic functions: generation, transmission, and distribution. Because of legal, regulatory, and technological advances, generation no longer displays monopoly characteristics. Transmission and distribution, or the "wires" function, on the other hand, will likely remain natural monopolies for the foreseeable future since it would be prohibitively expensive, and environmentally difficult, to construct redundant wires. Transmission consists of the high-voltage system that moves power in bulk from generating plants to an electric distribution system or a load center. Distribution receives stepped-down power, which is then transported at lower voltages to individual end users.

As part of various state legislative initiatives, utilities are being required to functionally, if not legally, disaggregate the vertically integrated components of their business. The costs of each function will be determined and itemized, or "unbundled," on customers' bills. While customers may purchase the actual electrons from a source other than their local utility, they must continue to transport this power over the distribution wires owned by their local utility. The local utility will use its wires system to charge customers for the services it provides, which will include transmission of power bought from other suppliers. Other services, such as billing and metering, could be maintained by the utility or could be opened to competition as well. Any stranded cost that is identified, isolated, and by mandate recoverable in utility rates, will also be recovered as a "wires charge;" it cannot be recovered as part of a generation charge, since customers may purchase generation from an alternative source.

Stranded costs, which have been realized as such only with the prospect of a competitive market, are included in current utility rates, but they are being amortized over as long a period as 30 to 40 years. Utilities need to accelerate the recovery of these above-market costs as quickly as possible if they are to lower their rates in preparation for a competitive environment.

Statutory Securitization of Stranded Costs

Until now, securitization of stranded assets has been made possible by state statute. In general, such statutes provide that the stranded assets themselves, plus interest on any bonds backed by stranded assets, the costs of servicing the

bonds, and the costs of bond issuance all be collected through imposition of a tariff that is collectible from the utility's customers. While differing in particulars, the legislation in Pennsylvania, California, Illinois, Massachusetts, Texas, Connecticut, New Jersey, and elsewhere shares certain characteristics that are significant from a rating perspective.

The statutes specifically provide for securitization of the stranded costs through their sale to a financing subsidiary, and ultimately, to a trust that issues the bonds. The statutes award true sale status to the transfer of the stranded assets to a finance subsidiary. This should help support the legal conclusion that the transfer constitutes a true sale for bankruptcy purposes.

The statutes also provide that any proposal for a securitization of stranded assets be approved on an irrevocable basis by the relevant utility regulatory commission. The commission must set a tariff schedule. A tariff would be included in the ordinary bills sent to customers, and would amortize the stranded assets over the life of the proposed securitization. The tariff would be a separate itemized charge on the customer's bill, and could be either a fixed charge or tied to electricity usage, in either case included in the utility's wires charge. In scheduling the tariff needed to amortize the assets fully, the commission will take into account the utility's forecast regarding the projected size and demographics of its customer base. Where the tariff is tied to electricity usage, predicted customer usage will be important.

The tariffs that are actually collected from customers may fall short of what was originally anticipated. In addition to defaults in bill payments, the customer base might decline due to economic and/or technological factors, or usage might vary from what was originally predicted. This might happen, for instance, if the winter is unusually warm or the summer particularly cool. These are credit risks that could impact the ability of the tariff to amortize the assets fully. To address these risks, the legislatures have created a statutory form of credit support, known as the "true-up" mechanism. The statutes provide that the utility periodically apply to the commission for a readjustment of the tariffs. The commission must then readjust the tariffs charged to customers, so that the bond amortization schedule is met. This minimizes credit risk, except in the tail end of the transaction after the final true-up has occurred. Liquidity risk will, of course, exist during the periods between true-ups, to the extent that collection shortfalls occur.

The true-up mechanism also may effectively minimize prepayment risk. While there may be a tariff collection shortfall, it is also conceivable that excess collections may be received. This might occur, for example, if the customer base grows at a greater rate than originally anticipated when the tariffs were established. If collections exceed expectations for a particular period, the true-up mechanism could potentially reduce the remaining tariffs accordingly, so that the remaining transaction amortizes as scheduled.

When the utility applies for a true-up, the commission may not grant it immediately. The commission's delay will add to liquidity risk, because the shortfalls in collections to be remedied by the true-up will last for a longer period, until the commission finally grants the true-up. A delay by the commission will not create credit risk during the transaction, because once the true-up is in place, the adjusted tariff will take into account any collection shortfalls caused by its delay. But a delay in the true-up could result in a credit loss at the tail end of the transaction. The commission might take so long to grant the true-up that the final true-up never occurs. The statutes prevent this potential credit loss, as well as limit liquidity risk caused by a delay, by setting a deadline for implementation of the true-up. For example, California requires that the commission implement a true-up within 90 days of each anniversary date of the

transaction. Other statutes simply require that the true-up filing with the commission becomes effective as early as the subsequent month.

The duration of these transactions and the ability to impose true-up periods and tariff collections indefinitely depend initially on whether the statutes impose a limit on how long the tariff may be collected from the utility's customers. Even where no limit is set as a statutory matter, the final true-up period, and the deadline for tariff collection, will depend on the legal final maturity date set for the bonds.

A utility might change hands for some reason, or file under Chapter 11 of the U.S. Bankruptcy Code. Such an event could strike at the heart of a potential securitization. Stranded assets will not be recovered unless the utility continues to provide electricity, bill its customers, transfer the tariff to the securitization trust, and apply for true-ups when necessary. The statutes address this problem by requiring that any successors to the utility, whether through bankruptcy, merger, or sale, must perform all of the utility's obligations in connection with the securitization.

The statutes provide another feature, by providing that, contrary to what would usually occur under the Uniform Commercial Code (UCC), there is a continued security interest in collections that have been commingled with other funds of the utility. This eliminates the usual credit risk associated with commingled funds in the event of a bankruptcy of the utility, although it fails to alleviate the liquidity risk and potential credit risk caused by the automatic stay (see *Protection Against Credit Risk Caused By Commingling*).

Finally, the statutes purport to create new property interests that must be perfected in a manner different from a UCC security interest. However, there is the possibility that stranded assets might still be considered subject to the prior lien of existing mortgage bonds. As a result, proceeds of the securitization might need to be applied to pay down the debt secured by the prior lien. This would, in any event, be positive from a credit perspective, because the bonds being retired (typically general obligation bonds bearing the rating of the utility) would have a higher interest rate than the 'AAA' rated securitized bonds used to retire the obligations.

Significance of Statutory Securitization

To date, stranded cost securitizations rated by Standard & Poor's have been based on legislation promulgated specifically for that purpose. Nevertheless, Standard & Poor's understands that, as a regulatory matter, state public utility commissions have, de facto, historically permitted recovery of stranded costs through rate adjustment.

While public utility commission regulatory action may well be sufficient to accomplish a securitized recovery of stranded costs, Standard & Poor's believes that there may be certain advantages to a legislation-backed securitization. Statutes have the benefit of having undergone the political process. Affected interests are given the opportunity to introduce, and argue for, their respective views. Hearings, drafting and amendments, floor debate, and overall legislative, and press and public scrutiny is the process by which political compromise is achieved and consensus built. The political process is viewed as investing the resulting legislation with a considerable degree of stability and support.

Viewed from the perspective of legal capacity, legislation has other advantages. At the heart of stranded cost securitization is the creation of a property right in the transition charges that serve as the basis for debt service. While it is clear that state legislatures are empowered by due process of law to create property rights, and to define and record how these rights are to be enjoyed, the ability of a state public utility commission to achieve the same end by

regulatory compact may not be as certain.

Statutory status provides both constitutional and political protection against the risk that the creation and pledge of securitization property might be impaired by subsequent amendment. Historical precedent indicates that a legislature is unlikely to reverse itself once it has enacted a statute. Even if a political reversal were to occur, the Pennsylvania, Massachusetts and California statutes recognize that the bondholders possess certain constitutionally protected rights. Both statutes provide that if the right to recover stranded assets is compromised in any way, the bondholders are entitled to adequate compensation.

Nevertheless, in jurisdictions where public utility commissions may reasonably be viewed to have the capacity and authorization to order a recovery of stranded costs through a securitization-type procedure, and in which the commission has a stable history of consistent regulatory action, and in which the courts have paid regular deference to commission order, Standard & Poor's will consider regulatory-based recovery procedures case by case. However, any such consideration will necessarily involve a comparison by Standard & Poor's of the proposed regulating action and its enactment in contrast to rated, statute-based recovery plans.

Overview of Stranded Cost Securitization

Differences From Traditional Asset-Backed Transactions

Several key aspects differentiate the securitization of stranded costs from the securitization of more conventional asset types.

Cash Flow Receivables In a typical securitization, the originator of the assets transfers a pool of receivables to a trust and receives payment based on an agreed-upon value for those receivables. The key in this case is that the receivables have already been created. In contrast, stranded assets are not traditional receivables. Although the statutes create a present property right to future collection there is no initial cash flow backing the debt. Stranded assets represent the present right to the cash flow from receivables that will be created in the future when performance, in this case power generation and delivery, has been provided. But until this performance by the utility company takes place, the customer is not obligated to make any payments. Power generation is thus critical to assure full and timely payment to securityholders. As a result, there is a greater dependence on the utility as seller/servicer to do more than just collect payments on existing receivables and liquidate collateral to the extent needed.

Dependence on Servicer Servicer bankruptcy filings generally cause a change in servicer in most asset-backed transactions to prevent any disruptions in the required servicing and collections on the portfolio. Therefore, a substitute servicer must be ready and willing to take over all servicing responsibilities, if necessary. But unlike in typical securitizations, the transaction cannot fully rely on a substitute servicer. A utility does not just collect payments; it must continue to provide power. Because provision of electricity is fundamentally a necessary service, however, Chapter 7 liquidations are unlikely. In contrast, utilities will continue to operate in Chapter 11 reorganization, and thus, provide power and enforce collection from customers. Security is provided by the statutory mandate that collection obligations must be assumed by any successor corporation, including successors pursuant to reorganization, or otherwise. Due to the regulated nature of the industry a state-by-state review of successor servicing arrangements will be performed by Standard & Poor's.

True-up as Credit Support Credit support is entirely structured within the finances of the typical securitization. In contrast, in these transactions credit support has been provided by the statutory true-up mechanism. The parties must initially come up with a proposed amortization schedule. This schedule determines the tariff to be charged to recover

the stranded costs, as well as the costs of the securitization itself. In setting this tariff schedule, the utility makes certain assumptions about charge-offs and sales over the following year or even decade. These assumptions will necessarily be inaccurate, especially as the date of forecast becomes increasingly remote. As a result, the stranded costs collected from customers could be less than those needed to repay the bonds. The true-up addresses this risk. The statutes provide that the utility periodically apply to the commission for a readjustment of the tariffs. The commission must then readjust the tariffs charged to customers. This effectively eliminates credit risk, except in the tail end of the transaction after the final true-up has occurred.

It should be understood that the true-up is not quite the same thing as an unlimited cash collateral account. Because the true-up will only be as good as collections in the following year, the amount of a current year's shortfall will not be fully recovered in the next year, due to charge-offs and forecast error occurring in that year. The amount will decrease over time, however, as successive true-ups are implemented. Where statutes do not place a limit on the tenor of the bonds and permit indefinite true-ups, the legal final maturity can simply be extended as a structural matter to gain the benefit of additional true-ups. This allows for as many true-ups as necessary to reduce the shortfalls that cannot be collected because they occur in what may have been originally contemplated as the final year of the transaction.

The true-up can make the amortization schedule for the bonds more predictable, unless dramatic consumption changes occur. This is because the true-up may adjust the amount payable to the trust by the customer base to the extent that there has been a shortfall or surplus in the prior period.

Perfection Mechanisms As stated above, the statutes provide for their own methods and location for filing and perfecting stranded assets. This may or may not result in the conclusion that stranded assets are new property interests not subject to UCC filing and priority rules, and thus are not subject to prior liens under the UCC.

Overcollateralization as Additional Credit Enhancement As mentioned earlier, the true-up mechanism will play an integral role in the transaction structure. The frequency of the true-up, for example, will influence the need for additional credit enhancement. Overcollateralization is the most likely form of credit support. Overcollateralization would cover the risks in the stub period following the final true-up, as well as make up for past shortfalls in collections that were never fully true-up in the past.

Sale Accounting and FAS 125 Stranded cost securitizations do not possess sale status as an accounting matter under FAS 125. The Security Exchange Commission's Office of Chief Accountant has indicated that while the utilities may be able to sell the right to recover stranded costs as a legal matter, they will not be able to remove the assets (and associated debt) from their balance sheets under FAS 125. Nevertheless, as long as the transaction is structured as a true sale for legal purposes, Standard & Poor's will "back out" for analytical purposes nonrecourse debt and associated carrying costs from the utility's consolidated financial statements. While off-balance-sheet treatment would have enabled a more clear-cut analysis, Standard & Poor's will attempt to recognize the economic (as opposed to the accounting) reality.

Debt for Tax Treatment Any utility intending to securitize stranded costs will likely seek a private letter ruling from the IRS that states that the sale of the assets constitutes a "debt for tax transaction." In other words, the sale would not result in the immediate recognition of income. If the sale were deemed to provide immediate income, the utility would incur an immediate tax liability as well. This would destroy the economics of a securitization.

The Rating Approach

Specific credit and legal risks that arise in securitizing stranded costs are addressed below. Standard & Poor's pursues a general rating methodology that attempts to stress in cash flows the ability of the true-up mechanism to ensure timely payment of interest and repayment of principal. In addition, it attempts to determine the number of true ups needed to meet these payments, that is, the structure's ability to meet its legal final maturity.

Credit Risks

Inaccuracy in Forecasting As mentioned earlier, the funds necessary to pay the stranded assets of the issuer are dependent on the tariff set by the commission and collected from the utility's customers. Tariff schedules are compiled for each customer class so that, taken together, the tariffs charged will amortize the stranded assets over the life of the securitization, while making timely interest payments. The tariff amounts themselves are based on estimates of cash flows to be collected from the customer base. The tariff amounts are thus determined based on such factors as the utility's forecast of population growth or decline, and seasonality in expected usage.

A shortfall in tariff collections can be caused by lower than expected usage due to:

Unanticipated customer migration (anticipated migration is included in the forecasting). Residential and small business customers are considered low risk in terms of customer migration. Large industrial customers, on the other hand, are considered a significant risk that requires additional stress to the cash flows (see Cash Flows). Additionally, as the term of transition bond issued exceeds the 6-8 years historically seen, technology driven customer migration increases significantly and begins to impact usage from commercial and small business customers.

Unanticipated weather conditions. Seasonal weather fluctuations are studied, and typically accounted for in setting the tariff charge.

Forecast error negatively impacts liquidity on the bonds and may "push out" the maturity of the bonds by requiring additional true-ups before the bonds can be paid out. To capture this risk, historical forecasting error is stressed at a certain multiple depending on the rating sought.

Where the tariff is recoverable from large industrial and commercial customers, Standard & Poor's will require data stratifying these customers by revenues generated. The cash flows will be additionally stressed to account for a potential loss in revenues caused by relocation of those customers with a high concentration risk in revenue generation for the utility.

Certain states have legislated rate caps on either the transaction charge for specific customer classes or on the total customer charge (i.e. through mandated rate reductions). Standard & Poor's will review the cash flow models to confirm that these rate caps are respected in stress scenarios.

Higher-Than-Expected Charge-Off Experience Like other forecasting variables, anticipated charge-offs are included in forecasting for purposes of setting the tariffs. Charge-offs may be higher than expected based on historical experience due to a variety of factors, including economic changes and unforeseen disasters. To account for this risk, charge-off history is stressed by the multiple relevant to the rating sought.

Commingling by Aggregators The recent mandated unbundling of generation, transmission, and distribution charges has paved the way for alternative generation suppliers. The consumer may choose to purchase its generation services from an alternative supplier, while continuing to pay transmission and distribution (wires charge) to the utility. As discussed earlier, the tariff would be included in the wires charge, so that collection of the tariff itself would not be endangered by the existence of competition for generation services. However, commingling risk could exist as a result of potential billing arrangements for the utility's transmission and distribution services on the one hand, and the alternative energy provider's generation services on the other.

Generally, alternative energy service providers (retail electric providers; third-party servicers) may provide a consolidated bill for their generation services and the tariff owed to the utility. Where this is the case, the energy services provider is liable to pay the tariff regardless of whether it has received collections from the ultimate users. As a result, the securitization is exposed to commingling risk, and the resulting loss of commingled tariffs, in the event of the bankruptcy of an energy services provider.

This risk can be mitigated by certain restrictions on the length of time that an energy services provider may commingle funds before consolidated billing and service is terminated. If the energy services provider becomes delinquent, direct and consolidated billing may cease and service and separate billing to the end-user customer would be made up for the tariff. This means that the aggregator could commingle funds for a number of days before consolidated billing were terminated. To address this risk, Standard & Poor's stressed cash flow runs eliminate one month of collections per year at the utility's peak billing cycle.

This or other risks involving alternative energy providers may exist in other stranded cost securitizations. Standard & Poor's will assess these risks and the resulting necessary cash flow stresses on a case-by-case basis.

Estimate of Tariff Based on Collections Curve Generally, utilities are unable to allocate amounts received to various charges on the bill, so they were unable to calculate what percentage of collections constituted tariff collections. To address this problem, the utilities prepared forecasts of the percentages of amounts expected to be received during each of the following six months. These forecasts were based on collections curves developed periodically based on accounting studies and collections studies performed by the companies. For each monthly billing period, collections were estimated over six months based on the collections curve.

When the actual tariff remittances by customers are calculated (on the seventh month following each monthly billing period), either too much or too little may have been paid for that billing period. If the amount remitted has been less than the actual tariffs collected during that six-month period, the shortfall will be made up the following month out of the servicer's (the utility's) own funds. Thus, if the servicer is bankrupt (Standard & Poor's assumption), there is a risk the bondholders will lose that portion of the tariff. If the actual tariff amount has been less than the estimated tariff collections remitted to the trust, the servicer would be entitled to withhold the excess amount paid from the next month's remittances.

It is not clear whether this risk will be present in other securitizations. To date, the risk of lower-than-actual remittances has not been separately stressed in the cash flow runs. The one month of lost collections (see *Commingling by Aggregators*) has been sufficient to cover this risk. Standard & Poor's also has relied on data provided by the company showing relative lack of volatility in the collections curve.

Higher Tariff An increase in tariff resulting from higher true-ups might become burdensome to consumers. This risk might have a spiraling effect, because greater charge-offs or customer migration or decreased usage might result, which in turn would result in the need for increased true-ups. Standard & Poor's will assess this risk by examining the highest per kWh tariff charge reached under the relevant stress scenarios. This risk increases as the term of the transaction increases to 10-15 years given greater technological/migration risk.

Cash Flows Two cash flow runs are generally required in rating stranded costs: a compounding forecast error run and an oscillating forecast error run, implementing the stress scenarios described below. These runs are created to test liquidity as well as the transaction's ability to meet the final maturity of each class of bonds in the transaction. They do so by creating scenarios where the true-up in the tariff amount (the reset of the tariff to reflect prior experience with actual collections and recover prior shortfalls in collections) continuously fails to reflect actual collections.

Compounding Forecast Error Run The compounding forecast error run assumes a compounding stressed error in forecasting resulting in a continual decline in actual tariff collections over what was forecast for that year. Assume, for example, that during year one, sales are 90% of the original sales forecast, that is, forecast error reflecting a multiple of the average forecast error for the customer class, where actual collections are less than expected collections.

At the end of year one, the tariff charge is recalculated assuming that year two customer sales will be what was experienced in year one, that is, 90% of the original expected forecast. Instead, year two sales are only 81% (90% of 90%) of the original sales forecast.

The sales decline is generally based on a multiple of the absolute value of the largest historical non-weather-normalized forecast variance by customer class. This compounding is assumed to continue from year to year over the life of the transaction.

Oscillating Forecast Error Run The oscillating forecast error run assumes a scenario where in one-year tariff collections exceed expectations, so that in the following year, the tariff is reset based on the prior year, only to experience a shortfall in actual collections. Assume for example that the appropriate stressed forecast error is 10%. During year one, sales are 90% (10% below) the original sales forecast. At the end of year one, the tariff is recalculated assuming that year two sales are also 90% of the original forecast. Instead, year two sales are 99% (110% of 90% level) of the original forecast. The tariff for the following year is reset assuming 99% of original forecast collections, only to receive 90% of originally forecast collections. This oscillation between 90% and 99% of original forecast is assumed to continue over the life of the transaction.

Legal Final Maturity The legal final maturity dates on stranded cost transactions are often set at up to two years beyond expected maturities. This additional period acknowledges the long-term nature of the liabilities being rated, and the corresponding possibility that fundamental changes in technology might take place that further stress the transaction in an unforeseen manner. One currently known possibility is that over time customers may increasingly switch to self-generation, which would enable them to cease paying the wires charge and thus, the tariff. Certain transactions have reduced this period by requiring more frequent (e.g. monthly) true-ups during the final year or two of the transaction.

Legal Risks

Reliance on Commission to Implement True-Up, and Potential Delay in Approving the True-Up Standard & Poor's believes that so long as the statute clearly specifies the maximum period before which the commission is compelled to implement the true-up, any shortfall in collections resulting from the delay can be sized and factored into the cash flow projections. Certain structures may permit the application of principal collections as liquidity for any interest payments due to noteholders during any true-up delay. In the absence of such features, adequate provision for liquidity and additional credit support should be demonstrated to Standard & Poor's.

Adequate Provision Law permits alteration or limitation of right to transition property and right to collect tariffs if "adequate provision" is made to the bondholders. Although there has been no conclusive demonstration as to what constitutes "adequate provision," and how such alteration or limitation would affect timely interest and principal payments on the bonds, Standard & Poor's, in rated transactions, has received legal assurances that any such alteration would be constitutionally prohibited were it substantially to impair the security for the bonds. While such assurances do not really define adequate provision, Standard & Poor's believes, in practice, that adequate provision should prove to be the functional equivalent of the pledged transition property.

Stranded Assets to Aid Industry Restructuring

Securitization of stranded assets provides an efficient method electric utilities can use to quickly free themselves from the high cost of stranded assets that prevents them from becoming players in the emerging competitive retail generation market. At the same time, the statutory true-up mechanism provides strong credit support that has withstood 'AAA' stress criteria applied by Standard & Poor's.

Related Criteria

- Post-Default Ratings Methodology: When Does S&P Global Ratings Raise A Rating From 'D' Or 'SD'?, March 23, 2015
- U.S. Public Finance: Electric And Gas Utility Ratings, Dec. 16, 2014
- Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings, Oct. 24, 2013
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Global Investment Criteria for Temporary Investments in Transaction Accounts, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Use of CreditWatch And Outlooks, Sept. 14, 2009
- U.S. Legal Criteria For "Recycled" Special-Purpose Entities, Sept. 19, 2002

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Background Information on Duke Energy and Duke Energy Florida

Duke Energy is a publicly-traded utility company with electricity generation and transmission networks in the Carolinas, Florida, Ohio, Kentucky and Indiana. Duke Energy Florida (“**DEF**”) is a subsidiary of Duke Energy and distributes power over much of central and north Florida. The Florida Public Service Commission (the “**Commission**”) regulates DEF and other electric utilities in Florida (including municipal or investor-owned electric utility, and rural electric cooperative which owns, maintains, or operates an electric generation, transmission, or distribution system).

Summary of Legislative Provisions on Asset Securitization

In 2015, section 366.95 of the Florida Statutes is created to enable “financing for certain nuclear generating asset retirement or abandonment costs”. This section includes asset securitization provisions to allow investor-owned electric utilities to set up a special-purpose vehicle (“**SPV**”) to issue secured bonds to finance the utility’s costs (“nuclear asset-recovery costs”) associated with the “early retirement or abandonment of a nuclear generating asset unit”. These provisions were likely introduced in response to the closing of Duke Energy’s Crystal River nuclear plant in 2013. According to DEF, “[t]his process, called Asset Securitization, will save customers approximately \$600 million as compared to traditional cost recovery methods.”¹

Subsection (1) sets out the definitions of some key terms used in the section. The definition of “Assignee” provides examples of different legal structures to set up the SPV, including corporation, limited liability company, trust, partnership or public authority. The definition of “utility” limits the scope of this section to “investor-owned electric utilities” by referring to the same definition in another section of the statute book. “Nuclear asset-recovery bonds” are issued by the utility or assignee, and secured by the “nuclear asset-recovery property”, which is the property interest in the revenue stream arising from “nuclear asset-recovery charges”.

Subsection (2) requires the utility to submit a petition to the Commission for a financing order before the nuclear asset-recovery bonds can be issued. The petition needs to demonstrate that securitization would result in cost savings or would avoid or mitigate rate impacts compared to the traditional method of cost recovery. Subsection (2) further requires the Commission to address specific areas in its financing order, including: (i) the amount of nuclear asset-recovery costs to be financed by the bonds and the period during which the charges can be imposed on customers; (ii) detailed fact findings on cost-effectiveness and rate impacts; (iii) a requirement that charges be nonbypassable and paid by all existing and future customers receiving transmission or distribution

¹ Duke Energy announcement, “Duke Energy Florida cuts rates for customers”, February 8, 2016
<<http://www.prnewswire.com/news-releases/duke-energy-florida-cuts-rates-for-customers-300216799.html>>

services; and (iv) mechanisms for periodic adjustment in the nuclear asset-recovery charges.

Subsection (3) provides that the bonds are considered debt for the utility only for federal income tax purposes, and limits the Commission's power to impose certain requirements in the financing order.

Subsection (4) sets out specific requirements for utility bills, such as showing the nuclear asset-recovery charge as a separate line item on the utility bill.

Subsection (5) creates a property right in the nuclear asset-recovery charges, which exists even if the charges have not been billed and may be pledged to secure the nuclear asset-recovery bonds. The utility may create a wholly owned subsidiary (the SPV) for the limited purpose of "acquiring, owning, or administering nuclear asset-recovery property or issuing nuclear asset-recovery bonds under the financing order", which also protects the nuclear asset-recovery property from potential creditor claims. This subsection also provides priority rules for competing security interests in the nuclear asset-recovery property. Subsections (6) to (8) provides further guidance in connection with the transfer of nuclear asset-recovery property to an SPV.

Subsection (9) provides that the nuclear asset-recovery bonds are not debt of the state of Florida. An issue of such bonds does not obligate the state to levy any tax for its payment, although the state may provide bond guarantees or enhancements. Subsection (10) provides statutory authority for certain entities to invest in nuclear asset-recovery bonds. Subsection (11) provides a pledge from the state not to take actions to impair the value of the nuclear asset-recovery property. Subsections (12) to (15) include boilerplate provisions such as conflicts, severability and penalties for noncompliance.

Duke Energy Florida's Financing Order and Bond Issuance

In November 2015, the Commission released Financing Order [PSC-15-0537-FOF-EI](#) to approve DEF's petition for the issuance of nuclear asset-recovery bonds in the amount of \$1,283,012,000 plus financing costs. Under the financing order, DEF is authorized to impose a nuclear asset-recovery charge to repay the nuclear asset-recovery bonds and associated financing costs, which will be collected on a per-kWh basis from all applicable customer rate classes. The financing order authorizes DEF to impose the charge for a period not exceeding 276 months (23 years) from the issuance of the nuclear asset-recovery bond.

DEF created Duke Energy Florida Project Finance LLC for the issuance of nuclear asset-recovery bonds in June 2016.

Provincial Support Agreement Term Sheet

Fair Hydro Plan Act, 2017

*This term sheet (the “**Term Sheet**”) is provided exclusively to the parties listed herein in connection with the draft Fair Hydro Plan Act, 2017 and the regulations to be made thereunder (the “**Act**”). This Term Sheet is to be held confidential. Defined terms used herein have the meanings ascribed to them in the Act. The provincial support agreement (the “**Provincial Support Agreement**”) will contain the terms and conditions set out in this Term Sheet in addition to such other representations, warranties, indemnities, and other terms and conditions as the Guarantor and the Beneficiaries (each as defined below) may reasonably require.*

Guarantor:	Her Majesty the Queen in right of Ontario, as represented by the Minister of Energy.
Beneficiaries:	The indenture trustee (together with its successors, the “ Indenture Trustee ”) under the master trust indenture (the “ Master Trust Indenture ”) on behalf of itself and all other persons having debt or other claims against a Financing Entity secured under the Master Trust Indenture (collectively, the “ Beneficiaries ”) including, without limitation, holders of senior and subordinated notes, senior and subordinated lenders, hedge counterparties, credit enhancers, liquidity providers, the Financial Services Manager, the Indenture Trustee, the trustee of the Financing Entity if the Financing Entity is a trust, and any other administrator of the Financing Entity.
Term:	The Guarantor’s obligations under the Provincial Support Agreement will continue until [one year] ¹ after all funding obligations (to be defined to include principal, interest, fees, hedge settlement and termination obligations and other related amounts) of all Financing Entities have been repaid.

¹ This mirrors the requirement expected to be in the Regulations under the Act not to wind up, dissolve or liquidate a Financing Entity until at least one year after all of its Funding Obligations have been repaid.

Performance Guarantee:	Under the Master Sale and Servicing Agreement to be entered into by IESO and the Financing Entity, [and OPG as Financial Services Manager] (“MSSA”), IESO will have obligations both as a seller and as a servicer. Pursuant to a performance guarantee, the Guarantor will guarantee in favour of the Beneficiaries to perform, or cause the performance of (which may be by way of the appointment of a replacement servicer), the obligations of IESO as servicer under the MSSA and the Act including the obligations of any replacement servicer. The Guarantor will also guarantee the servicing obligations of the electricity vendors under the Act. The servicing obligations covered will include all obligations related to the collecting and remitting of clean energy adjustments and will protect the Beneficiaries from any risks arising from collections of clean energy adjustments being commingled with other amounts. In the event that the performance guarantee is unenforceable against the Guarantor, the Provincial Support Agreement will contemplate a separate legal obligation by the Guarantor to indemnify the Beneficiaries for any losses that result.
Payment Guarantee Event:	A Payment Guarantee Event will occur if: (A) the Legislative Assembly of Ontario repeals the Act; or (B) the Legislative Assembly of Ontario amends the Act or a Regulation thereunder is amended in a way that adversely impacts the ability of a Financing Entity to fully recover an investment interest in order to fully pay all funding obligations and other obligations incurred by such Financing Entity in respect of such investment interest; or (C) a court of competent jurisdiction (i) determines all or a portion of the Act to be <i>ultra vires</i> in a way that adversely impacts the ability of a Financing Entity to fully recover an investment interest in order to fully pay all funding obligations and other obligations incurred by such Financing Entity in respect of such investment interest or (ii) declares any funding obligations to be invalid or unenforceable; or (D) funding obligations are due and payable at a time when a market disruption (a period of [six months or more] when capital markets term funding is not available to effect refinancings of funding obligations) is occurring and, in the case of long term funding obligations only, a moratorium or limitation on the imposition and collection of clean energy adjustments to repay such funding obligations is in effect under the Act.

Payment Guarantee:	<p>Upon the occurrence of a Payment Guarantee Event under clauses (A), (B) or (C) of the above definition:</p> <p class="list-item-l1">(x) the Guarantor shall assume and pay when due (without acceleration) all funding obligations and all other obligations of the Financing Entities to the Beneficiaries by paying all regularly scheduled amounts in respect thereof during the term of each Financing Entity’s contractual obligation to such Beneficiaries; and</p> <p class="list-item-l1">(y) Beneficiaries holding funding obligations consisting of bonds [with a remaining term to maturity of greater than one year] shall have the option to put the bonds to the Financing Entity for a put price equal to 101% of the principal amount thereof plus accrued and unpaid interest. In connection with any put under this clause (y), the Guarantor shall guarantee payment of the put price and any related hedge breakage but shall not be responsible for any other default, penalty, prepayment or make whole amounts.</p>
Limits under Guarantees:	Under no circumstances shall the Guarantor be obligated to indemnify any Beneficiary for special or punitive damages, or loss of profits.
Priority of Payments:	The priority of the Beneficiaries to any payment made by the Guarantor under the Provincial Support Agreement shall be governed by the priority provisions in the Master Trust Indenture.
Subrogation:	Where the Guarantor has repaid all Beneficiaries in full, to the extent of such payments the Guarantor shall be subrogated in and to all the rights of recovery of the Beneficiaries in respect of their applicable indebtedness and obligations and the security granted by a Financing Entity to the Indenture Trustee. After repayment by the Guarantor of all indebtedness and obligations owing to the Beneficiaries, the Indenture Trustee will acknowledge and agree on behalf of the Beneficiaries that the Guarantor is entitled to exercise all of the rights, powers and privileges that the Beneficiaries have or may exercise in respect of the repaid indebtedness and obligations, all in accordance with the terms of the Master Trust Indenture. Prior to the repayment in full of the indebtedness and obligations owed to the Beneficiaries, the Guarantor shall have no rights of subrogation.
Notice Requirements:	The Indenture Trustee will be required to provide notice to the Guarantor of a Payment Guarantee Event and may in such notice demand payment or performance of the Guarantor’s obligation under the Provincial Support Agreement, as applicable.

Closing:	Date to be determined but no later than [■, 2017]. The Closing is the date on which the documents in respect of the MSSA, the Master Trust Indenture and all related documentation are executed and delivered.
Reporting Requirements of a Financing Entity:	The Guarantor will be entitled to receive all reports received by the Indenture Trustee under the Master Trust Indenture.
Conditions Precedent to Closing:	Conditions precedent to Closing shall be those conditions set out in the Master Trust Indenture. ²
Representations:	Customary representations and warranties of the Guarantor.
FIPPA:	Acknowledgement that the Guarantor is bound by the <i>Freedom of Information and Protection of Privacy Act (Ontario)</i> and that any information provided to the Guarantor or its agents or representatives in connection with the Transaction Documents may be subject to disclosure in accordance with that act or as otherwise required by law.
Confidentiality Obligations:	Customary confidentiality obligations to be negotiated and included. A Financing Entity and the Beneficiaries shall not, subject to applicable law, issue any press releases and other public announcements in respect of the Provincial Support Agreement without the prior written consent of the Guarantor.
Governing Law:	Province of Ontario

² Opinions on the validity and enforceability of Provincial Support Agreement will be required.

Overview of Long Island Power Authority

Long Island Power Authority (LIPA) is a not-for-profit public utility and the owner of transmission and distribution networks in Long Island, New York. It is established by statute and the state governor has power to appoint board members. LIPA has entered into a management contracts with the Public Service Enterprise Group (PSEG), a publicly traded utility company in New Jersey, and PSEG's subsidiary now manages the billing and day-to-day operations of the distribution network.

Summary of LIPA Reform Act

Section 1(8) of Part B of the Long Island Power Authority Reform Act, 2013 (the LIPA Reform Act) provides the legislative purpose of the act, which is "to refinance outstanding debt of LIPA, a significant portion of which relates to the cost of constructing and financing the now abandoned Shoreham nuclear power plant". The Act authorizes the creation of a restructuring bond issuer for the limited purpose of "issuing securitized restructuring bonds to purchase restructuring property to finance the cost of purchasing, redeeming or defeasing a portion of the outstanding debt". This section also makes it clear that it is the intention of the legislature to provide a statutory pledge (found in s. 9 of the LIPA Reform Act) that until the restructuring bonds are paid in full, "the state will not in any way take or permit any action to revoke, modify, impair, postpone, terminate or amend this act in any manner that is materially adverse to the owners of the restructuring bonds".

The definitions in section 2 of the LIPA Reform Act provide some clarity to the mechanisms for the securitization regime. Restructuring bonds are issued by the "restructuring bond issuer" (which is established under section 4 of the LIPA Reform Act and known as the "Utility Debt Securitization Authority", or UDSA) and secured by the "restructuring property", which is essentially the property interest in a future revenue stream. In section 2(13), "restructuring property" is defined to include the property rights and interests in the "transition charges". As defined in s. 2(21), transition charges are established and may be amended from time to time in accordance with a restructuring cost financing order, and they are a component of the delivery line on the utility bills.

Section 3 provides the procedures for issuing restructuring bonds by the restructuring bond issuer, and includes appeal procedures and public hearing provisions. Section 4 provides the authority to establish the UDSA as a public corporation, the scope of its activities and its governance structure. It should be noted that section 4(2)(a)(i) provides that "the restructuring bond issuer shall only issue and sell restructuring bonds once" (please also see summary of 2015 amendments below). The UDSA also issues the restructuring cost financing orders in accordance with section 5.

Section 6 sets out the features of the restructuring bonds. Section 6(1) limits bond purchaser's remedies to the restructuring property, i.e. the property interest in a future revenue stream. The restructuring bonds are tax-exempt (section 6(2)), and are not debt of the state (section 6(3)).

Section 7 governs the restructuring property and creates a property interest and security interest in the future revenue stream arising from "transition charges". Section 7(1)(c) provides that "[t]he restructuring property may be transferred, sold, conveyed or assigned to the restructuring bond issuer. All or any portion of restructuring property may be pledged to secure the payment of restructuring bonds", and "revenues from the collection of transition charges shall be applied solely to the repayment of restructuring bonds and other ongoing financing costs."

Section 8(2) provides that any owner of the transmission and distribution network or any other entity that collects the delivery charges on behalf of the owner shall impose the transition charges on the consumers, and shall remit such revenues to the owner or pledgee of the restructuring property.

Section 9 provides the pledge from the state not to take actions to impair the value of the restructuring property. Sections 10 to 17 include procedural provisions such as conflicts, third-party billing and standing.

Summary of 2015 Amendments to LIPA Reform Act

The LIPA Reform Act was further amended in 2015 to permit the issuance of additional restructuring bonds by UDSA or a separate "Utility Debt Securitization Authority No. 2" up to an aggregate maximum amount (including the previously-issued Restructuring Bonds) of \$4.5 billion. Any additional issuance of restructuring bonds, whether issued by UDSA or by a new issuer, will be separately secured by distinct collateral pursuant to a new financing order and transaction documents.