

# MOODY'S

## 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-<br>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](http://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 <sup>1</sup> 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] <sup>1</sup>                                                                                          |
| 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) <sup>2</sup>                                                             |

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

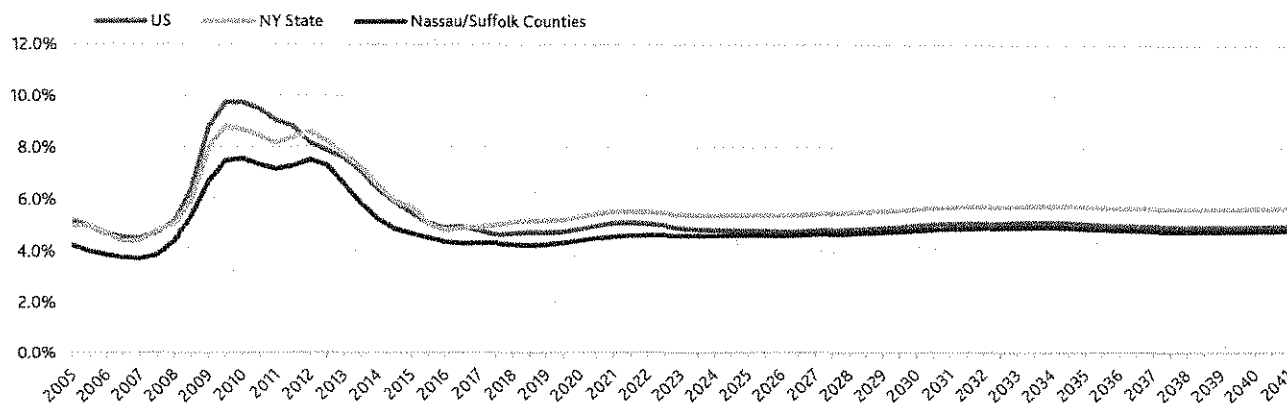
Long Island's economy benefits from a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and 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.

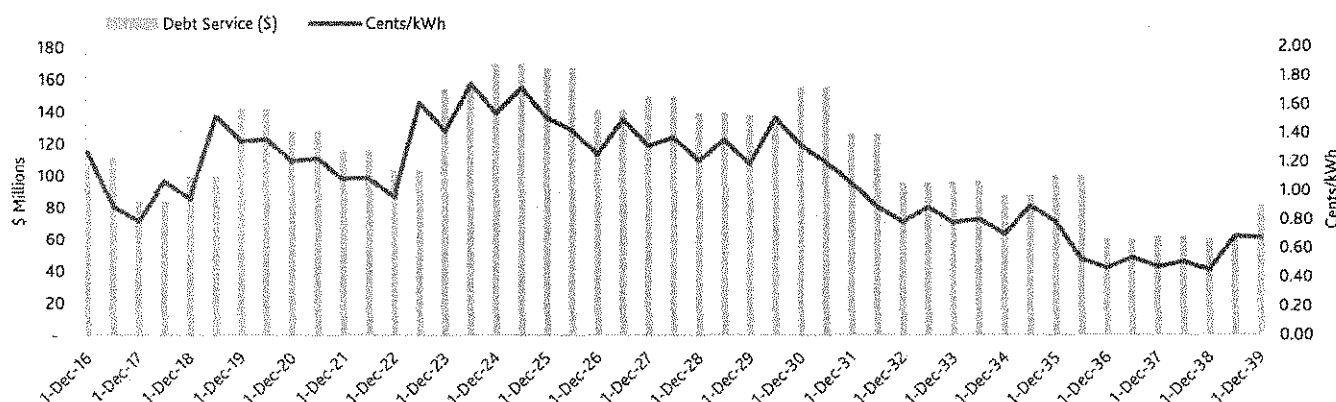
LIPA expects the combined initial restructuring charge for the 2013, 2015 and 2016A transactions to be around [6.91%] of the total monthly bill that an average 1,000 kWh residential customer in the service area would receive as of June 1, 2016, which is higher than most other UCRC securitizations we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

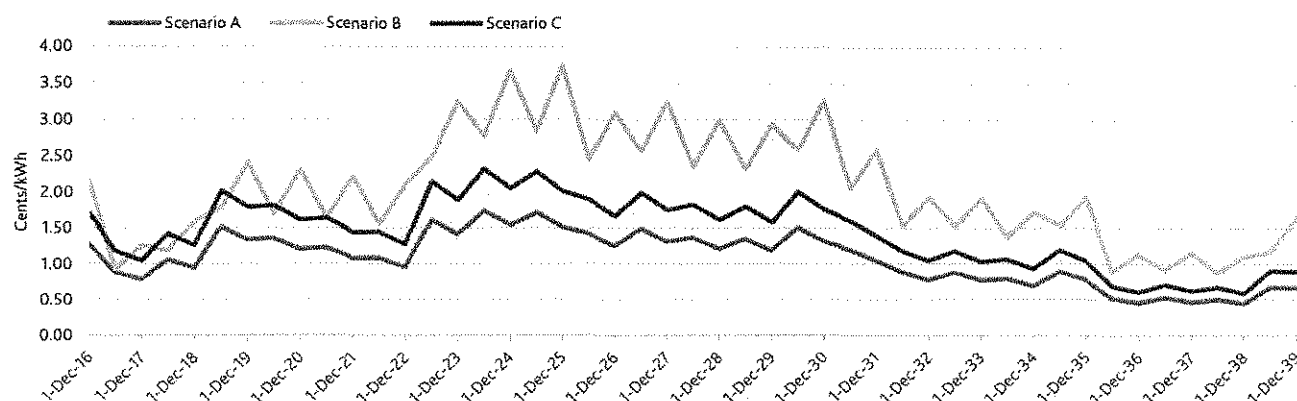
In our first stress scenario, we assumed 1) electricity consumption decreases linearly by 5% every year until it reaches 50% of the projected consumption for residential customers and 65% for non-residential customers, 2) annual net charge-offs are the same as in base case, 3) collection curve is the 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

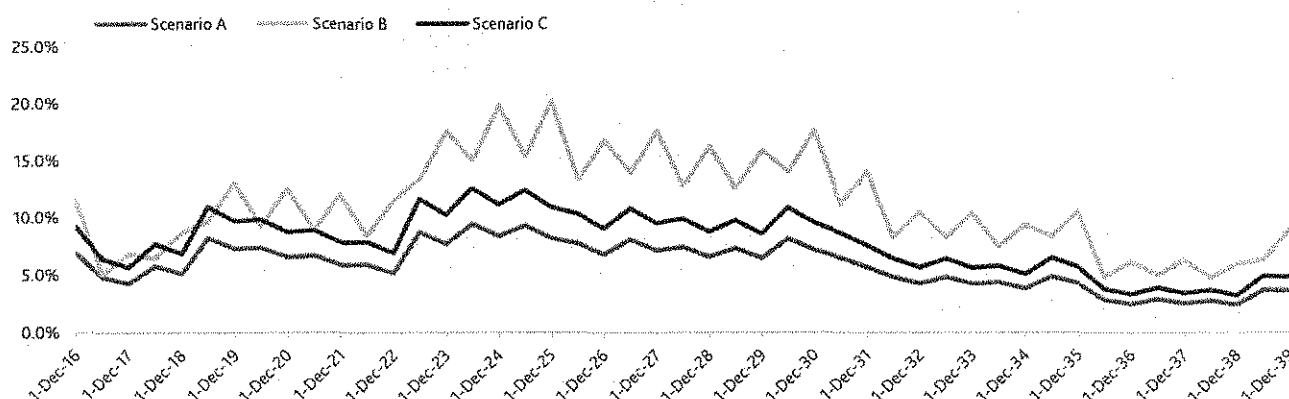
## Restructuring Charge (Cents/kWh)



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.

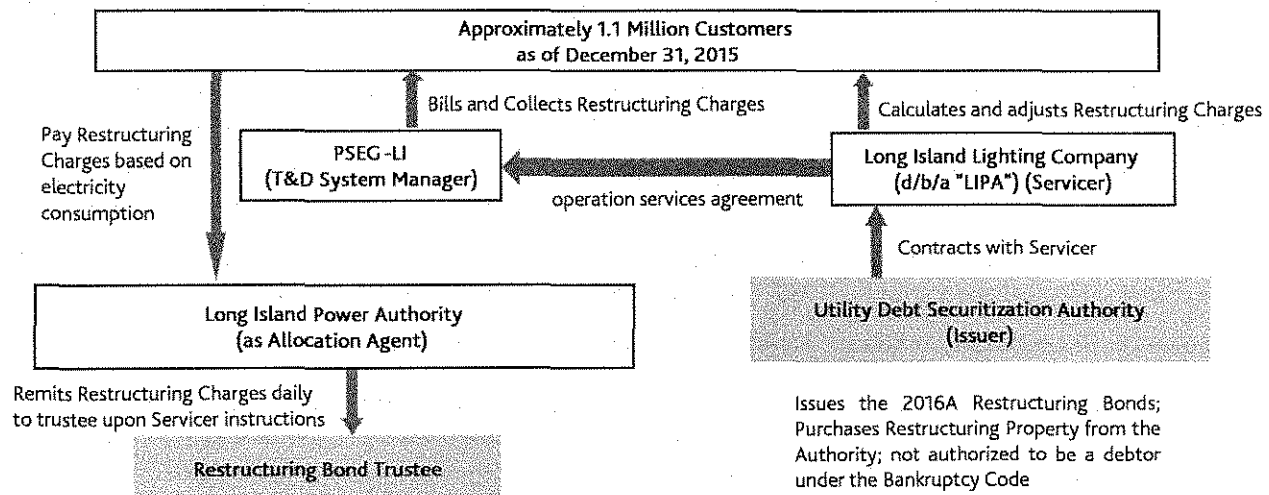
## Securitization Structure Analysis

### 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

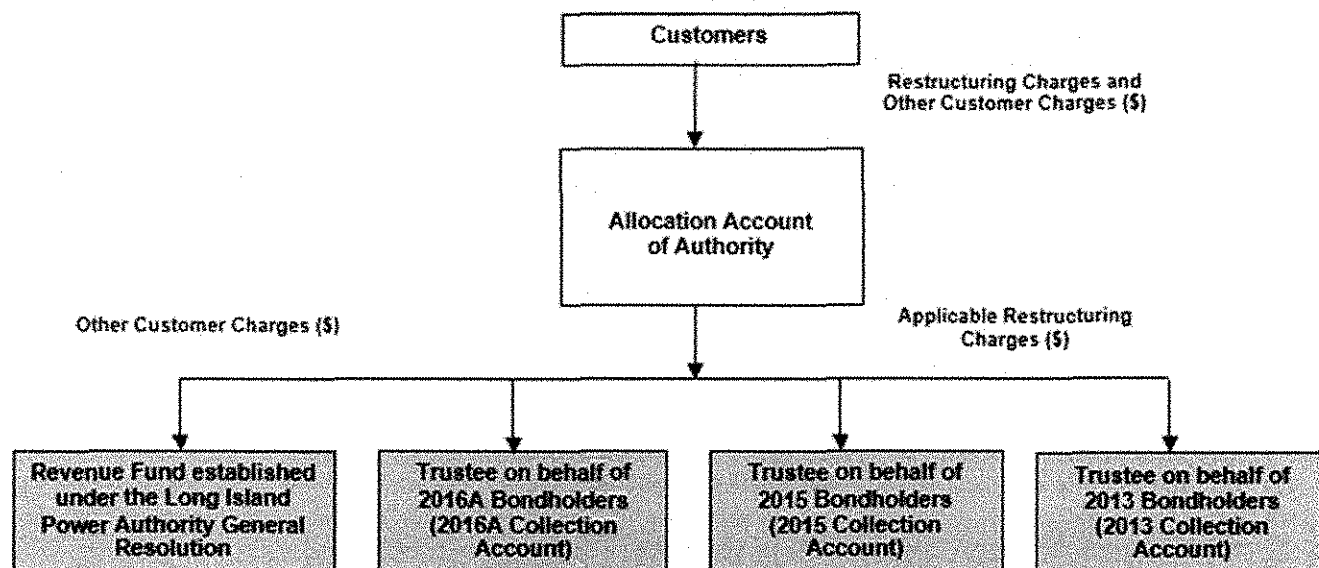


Source: Utility Debt Securitization Authority, Restructuring Bonds, Series 2016A Preliminary Official Statement dated February 18, 2016

### 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](http://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](http://www.moodys.com).