

LONG ISLAND POWER AUTHORITY
PUBLIC HEARING NOTICE

July 20, 2017

Background

The Long Island Power Authority (“LIPA” or “the Authority”) is holding a Public Hearing to present information relating to Financing Order #5 in which LIPA proposes to issue Utility Debt Securitization Authority (“UDSA” or “the Securitization Authority”) debt to retire various Series of LIPA debt. Such new UDSA debt will be rated “AAA” by the major rating agencies, which will result in a lower cost of funds than the existing “A” rated LIPA debt, resulting in reduced debt service costs to the ratepayers over the life of the UDSA debt.

The LIPA Reform Act, as amended, requires and authorizes:

- the Authority to schedule and hold one or more expedited public statement hearings on the proposed restructuring cost financing order. After the conclusion of such hearings and review of any comments received, the Authority shall finalize the restructuring cost financing order for submission to the Authority Board of Trustees and to the Public Authorities Control Board (“PACB”).
- the adoption of restructuring cost financing orders by LIPA which includes the right to impose a transition charge on customer bills (each a “Charge” and collectively the “Charges”),
- the sale of the restructuring property created by such orders to a special purpose entity, UDSA, which purchases such restructuring property through the issuance of restructuring bonds secured by a pledge of such restructuring property, and
- the use of the sale proceeds received by the Authority from UDSA to refinance a portion of the Authority’s outstanding debt at a lower interest rate than the Authority could otherwise obtain. The total delivery charge (including Charges) paid by each customer is intended to be reduced on a net present value basis as a result of the securitization financings.

On June 21, 2013, the New York State Assembly and Senate adopted the LIPA Reform Act and on July 29, 2013, the Governor signed it into law. On March 30, 2015, the New York State Assembly and Senate adopted Chapter 58, the laws of New York, 2015 (“Chapter 58”), which amended the LIPA Reform Act, and on April 13, 2015 the Governor signed it into law. The LIPA Reform Act, as amended, authorizes UDSA to issue restructuring bonds in an aggregate principal amount not to exceed \$4,500,000,000.

The Authority has adopted four restructuring cost financing orders to date (the “Existing Orders”), pursuant to which the Securitization Authority has issued \$4,130,529,000 aggregate principal amount of restructuring bonds (the “Existing Restructuring Bonds”). The Securitization Authority used the proceeds of each series of the Existing Restructuring Bonds to purchase the restructuring property created by each of the Existing Orders, including related transition charges. The restructuring property created by each Existing Order was pledged by the Securitization Authority to the payment of the related series of the Existing Restructuring Bonds. The Authority used the net proceeds from the sale of such restructuring property to retire debt and other obligations of the Authority.

UDSA is authorized under the LIPA Reform Act, as amended, to issue an additional \$369,471,000 in securitized or restructuring bonds, which amount represents the difference between the \$4.5 billion UDSA is authorized to issue pursuant to the LIPA Reform Act and the amount of restructuring bonds issued by UDSA to date. Any additional UDSA offering must be approved by the Authority’s Trustees, following public hearings, and then such issuance must receive approval (or deemed approval) by the Public Authorities Control Board (“PACB”). The Authority now proposes to adopt Restructuring Cost Financing Order No. 5, which is discussed in detail below (the “New Financing Order”), to authorize the remainder of the restructuring bonds authorized by the amendments to the LIPA Reform Act.

The public hearings will be held by the Authority on July 20, 2017 in accordance with Part B of the LIPA Reform Act and the public will be provided an opportunity for comment. A copy of the New Financing Order is available on the LIPA website. After the public hearings, the Financing Order will be presented to the Trustees for adoption by the Authority and then submitted to PACB. The LIPA Reform Act provides that if PACB does not act to approve or disapprove a financing order within 30 days of its submission, it is deemed approved.

The LIPA Reform Act requires that a financing order include, among other things, a finding by the Authority that the proposed issuance of securitized bonds to refinance the selected Target Debt “is expected to result in savings to LIPA’s customers on a net present value basis”.

The Servicer (currently LIPA) is currently required to file a notice with the Securitization Authority at least annually to adjust the Current Charge to correct for any over-collection or under-collection of such Current Charge. This procedure will also apply to the new Charge for the restructuring bonds issued under the New Financing Order. The Charge relating to the new issue of restructuring bonds will need to be adjusted periodically because it is calculated based on kilowatt hour usage and expected ongoing financing costs associated with such restructuring bonds. The adjusted Charges relating to any restructuring bonds will automatically go into effect not later than 60 days after such notice.

While restructuring bonds remain outstanding, the related Charge, as adjusted from time to time, is irrevocable and non-bypassable by customers. The State of New York has pledged in Part B of the LIPA Reform Act not to take or permit any action that reduces, alters or impairs Charges until the related restructuring bonds and ongoing financing costs have been paid. If a customer pays only part of its utility bill, the payment would be allocated pro rata between the Charges and other charges on the utility bill unless the customer specifies that a greater portion of such payment is to be allocated to Charges.

Discussion

It is now proposed that the Authority adopt the New Financing Order which would permit UDSA to issue restructuring bonds (the “New Bonds”) in an amount not to exceed \$369,471,000 (described in the New Financing Order as the “Order Cap”), the difference between the statutory limit of \$4.5 billion and the amount of restructuring bonds issued to date. The New Financing Order is substantively the same as previously approved financing orders. The portion of the proceeds of the New Bonds paid to the Authority as described below would be used by the Authority to refinance a portion of the Authority debt described in the New Financing Order as the “Target Debt.”

Certain key provisions of the New Financing Order are briefly summarized, as follows:

Purpose of New Financing Order

- The adoption of the New Financing Order will permit the Securitization Authority to issue the New Bonds in a principal amount not to exceed the Order Cap for the purpose of refinancing all or a portion of the Target Debt.
- The New Financing Order creates a separate Restructuring Property as defined therein, which is the right to bill and collect from customers the non-bypassable Charge necessary to pay the New Bonds and other Ongoing Financing Costs (as defined in the New Financing Order) including the costs required to service the New Bonds, collect the Charge, administer the Securitization Authority, and pay other expenses associated with the New Bonds.
- The New Financing Order authorizes the sale of the Restructuring Property created thereby to the Securitization Authority pursuant to a sale agreement (a “Sale Agreement”) in exchange for the net proceeds from the sale of the New Bonds less the costs required to issue the New Bonds (collectively, as defined in the New Financing Order, the “Upfront Financing Costs”).
- In addition to a Sale Agreement, various other agreements relating to the Restructuring Property and the Charge will be entered into by the Authority or LIPA pursuant to the New Financing Order, including a Servicing Agreement and an Administration Agreement, all as described in the New Financing Order.
- The New Financing Order approves the costs of purchasing, redeeming, repaying or defeasing a portion of the Target Debt as described in the New Financing Order (“Debt Retirement Costs”) and Upfront Financing Costs in an amount not to exceed the Order Cap.
- The New Financing Order authorizes one or more officers of the Authority (each an “Authorized Designee”) to review and approve the pricing and terms of the New Bonds and various related documents, authorizes the Securitization Authority to execute and deliver a bond purchase agreement, which may be

joined by the Authority if an Authorized Designee so determines, and provides for the delivery to the Authority and the Securitization Authority of an Issuance Advice Letter (described below) by LIPA, to be filed not later than the third business day after the pricing of the related Bonds.

- Pursuant to the New Financing Order, the Authority approves the issuance and sale of New Bonds in an aggregate principal amount not to exceed the Order Cap, in one or more series or tranches, to be sold at one or more times pursuant to one or more bond purchase agreements.
- The New Financing Order will constitute a final rate order of the Authority after approval by the Trustees and the approval (or deemed approval) by the PACB, subject only to a 30-day expedited appeal process.

Savings

- The New Financing Order includes a finding that the securitization financing is expected to result in savings to consumers of electric transmission and distribution services in the service area on a net present value basis and provides a methodology for calculating those savings. The New Financing Order provides for such savings on a net present value basis to be calculated as the difference between (i) the present value of the Expected LIPA Debt Service and (ii) the present value of the Securitization Debt Service, each as defined in and calculated pursuant to the New Financing Order. “Expected LIPA Debt Service” is defined in the New Financing Order and includes, among other things, expected debt service on outstanding fixed rate bonds, as well as expected debt service on fixed rate bonds, which the Authority plans to issue absent securitization to refund (i) any portion of the Authority’s variable rate demand bonds, (ii) any debt under the Authority’s revolving line of credit agreement when the New Bonds are issued and (iii) any of the Authority’s commercial paper balances outstanding when such New Bonds are issued. “Securitization Debt Service” is defined in the New Financing Order and means the principal of and interest on the New Bonds issued by the Securitization Authority pursuant to the New Financing Order, calculated in accordance with the New Financing Order.

Issuance Advice Letter

- An Issuance Advice Letter will be filed with the Authority and the Securitization Authority after the pricing of the New Bonds, will establish the initial Charge under such financing order and will include details and estimates of the related Debt Retirement Costs and the specific Target Debt to be purchased, redeemed, repaid, or defeased, and the Upfront Financing Costs, and estimates of the Ongoing Financing Costs. The Issuance Advice Letter will also set forth a calculation of the expected savings to consumers on a net present value basis.

- Under the LIPA Reform Act, after the filing of an Issuance Advice Letter, the Authority is required to confirm in a notice to the Securitization Authority that the pricing of the New Bonds complies with the New Financing Order. An Authority Designee will confirm that the pricing of such New Bonds and the other matters described in the Issuance Advice Letter comply with the New Financing Order and approve the Debt Retirement Costs, the expected Upfront Financing Costs, the expected Ongoing Financing Costs relating to such bonds and the forms of the agreements attached to such Issuance Advice Letter.

True-up Adjustment Mechanism

- In order to provide for timely payment of principal and interest on the New Bonds and payment of other Ongoing Financing Costs, the New Financing Order establishes a true-up adjustment mechanism to adjust the level of the Charge established thereunder to correct for any over-collection or under-collection.
- As described more particularly in the New Financing Order, adjustments will include: (1) mandatory annual true-up or true-down, (2) mandatory semi-annual true-up if the Servicer forecasts a shortfall, and (3) optional interim true-up implemented at any time for any reason by the Servicer.

State Pledge

- As provided in Part B of the LIPA Reform Act, the State of New York has pledged and agreed that the State will not in any way take or permit any action that limits, alters or impairs the value of Restructuring Property created by the Existing Financing Orders or the New Financing Order or, except as required by the adjustment mechanism described in the related Financing Order, reduce, alter or impair the Charge established by such Financing Order that is imposed, collected and remitted for the benefit of the owners of the restructuring bonds secured by restructuring property, any assignee, and all financing entities, until any principal, interest and redemption premium in respect of such 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.

Not Debt of State or Authority

- As provided in Part B of the LIPA Reform Act, the New Bonds shall not constitute a debt, general obligation or a pledge of the faith and credit or taxing power of the State of New York or of any county, municipality or any other political subdivision, agency or instrumentality of the State of New York.
- The New Financing Order provides that the New Bonds shall be without recourse to the credit or any assets of the Authority.

As set forth in the New Financing Order, Authority Staff and its advisors have determined that (i) the structure of the New Bonds is consistent with the LIPA Reform Act, (ii) the New Bonds are

restructuring bonds under the LIPA Reform Act, (iii) the Restructuring Costs are approved restructuring costs under the LIPA Reform Act, (iv) the Restructuring Property created by the New Financing Order is restructuring property under the LIPA Reform Act, (v) the Charges are transition charges under the LIPA Reform Act, and (vi) the New Financing Order meets the requirements of a restructuring cost financing order under the LIPA Reform Act.

The New Financing Order is expected to be submitted to the PACB for its approval or disapproval, shortly following the adoption of the New Financing Order by the Trustees, in the expectation that such restructuring cost financing order would be approved, deemed approved, or disapproved by September, 2017. The New Financing Order is being submitted to the Trustees for their approval at this time to demonstrate to the PACB that the Trustees approve the New Financing Order and to expedite the time in which the New Financing Order becomes a final reconstruction cost