MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A3 rating to LIPA's (NY) Series 2016B General Revenue Bonds; outlook is stable

Global Credit Research - 29 Sep 2016

Approximately $407 million of debt securities affected

New York, September 29, 2016 -- Summary Rating Rationale

Moody's Investors Service assigned a rating of A3 to the Long Island Power Authority's (LIPA or the Authority) (NY) $407,740,000 Electric System General Revenue Bonds, Series 2016B. The rating outlook for LIPA is stable.

The A3 rating for LIPA's 2016A senior revenue bonds reflect the utility's strong cost recovery mechanisms that support a stable and predictable cash flow stream. The economic strength and size of LIPA's service territories in the Long Island counties of Nassau and Suffolk continue to be a positive factor underpinning the rating. Other considerations supporting the A3 rating include improved operating and customer satisfaction measures and transparent and credit supportive regulatory relationships.

The rating recognizes commitments LIPA has received at both federal and state levels to assist with continuing storm hardening investment, to limit increases in payments in lieu of taxes, and to provide for lower interest cost through allowed securitization transactions. These efforts have helped to limit the size of requested rate increases while allowing LIPA to continue investing in operational and systems improvements and improving financial metrics.

For additional detail on LIPA's credit considerations, please refer to our report Moody's upgrades LIPA (NY); outlook is stable dated August 12, 2016, which can be found on moodys.com.

Rating Outlook

The stable outlook reflects an expectation that LIPA's cost recovery mechanism will continue to provide a more stable and predictable cash flow profile.

Factors that Could Lead to an Upgrade

" The rating is well-positioned at the lower end of the A category and is not expected to move upward in the foreseeable future.

" Longer term, a sustainable improvement in credit metrics could give rise to a higher rating. For example, consideration of a higher rating could occur if the fixed obligation charge coverage were to reach 1.50 times while its debt ratio declined below 100%, both on a sustained basis.

" Establishment of a meaningful debt service reserve for the revenue bonds.

Factors that Could Lead to a Downgrade

" Unexpected deterioration in financial metrics, including fixed obligation charge coverage declining to below 1.1 times and total days cash on hand declining to below 90 days on an ongoing basis.

Legal Security

LIPA's senior revenue bonds are secured by a pledge of net revenues generated by LIPA's transmission and distribution system. Security for the bonds excludes the non by-passable restructuring charge established for the repayment of approximately $4.1 billion of Utility Debt Securitization Authority bonds. There is no debt service reserve or additional bonds test, which is weak compared to industry norms.

Use of Proceeds

Proceeds from the 2016B bond offering will be used primarily to fund system improvements.

Obligor Profile

LIPA was established in 1986 as a corporate municipal instrumentality of the State of New York under the Long Island Power Authority Act (the LIPA Act). In 1998, the Authority became the retail supplier of electric service in most of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens by acquiring the Long Island Lighting Company (LILCO) as a wholly owned subsidiary which does business as LIPA.

LIPA's assets currently consist of a transmission and distribution system that is used to serve approximately 1.1 million customers in an approximately 1,230 square mile service territory (as well as an 18% (234 MW) interest in the Nine Mile Point Unit 2 nuclear facility.

Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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