

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms LIPA's (NY) A3 rating; outlook changed to positive from stable

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New York, October 05, 2018 -- Moody's Investors Service has affirmed the A3 rating on about \$3.2 billion of outstanding parity revenue bonds and the Baa1 rating assigned to Long Island Power Authority's (LIPA) subordinated lien revenue bonds. Also, Moody's has assigned a A3 rating to LIPA's planned issuance of \$430 million Electric System General Revenue Bonds, Series 2018. The \$430 million issuance will fund a portion of the utility's capital expenditure program with the remainder funded from cash from operations and FEMA grants. Concurrently, the rating outlook has been revised to positive from stable.

RATINGS RATIONALE

The rating affirmation considers LIPA's strong suite of cost recovery mechanisms that support a more resilient and predictable cash flow stream, improved financial, operating and customer satisfaction measures, LIPA's continued investment in operational and systems improvements and the strong economic profile of LIPA's service territory.

Drivers for the utility's improved financial position include the implementation of cost recovery mechanisms, sizable FEMA grants to fund storm hardening investments, improved board policies around liquidity and capital spending, and implementing rate increases which are focused around strengthening credit quality through higher debt service coverage ratios (DSCRs). From these efforts, certain financial metrics have improved noticeably. Specifically, LIPA's debt ratio as calculated by Moody's declined to 101% in 2017 from 114% in 2015 and days cash on hand improved to 146 days from 118 days during the same timeframe. LIPA's fixed obligation charge coverage ratio has also improved, however, more modestly, improving to 1.16x in 2017 from 1.14x in 2015.

The positive outlook reflects our expectation for continued improvement in operational and financial performance. A near-term challenge facing LIPA's management will be the ability to manage continued improvements outside the purview of the rate plan, which expires in 2018. While LIPA will continue to benefit from the existing suite of recovery mechanics, annual base rate increases beyond 2018 have not been predetermined. Going forward, LIPA is only required to submit a proposed rate increase for regulatory review if it would increase aggregate revenues by more than 2.5%. While we do not expect LIPA to exceed 2.5% over the near-term, such a request, if warranted, could potentially trigger political scrutiny.

A longer-term challenge is the company's compliance with New York State's aggressive renewable energy standards that will require a considerable shift to renewable energy resources while maintaining electric rates that are palatable to customers.

RATING OUTLOOK

The positive outlook reflects our expectation for continued improvement in operational and financial performance.

FACTORS THAT COULD LEAD TO AN UPGRADE

Continued operational and financial improvements over the next 12-18 months, including satisfactory operational metrics combined with a reduction in LIPA's debt ratio below 100%, the maintenance of at least 140 days cash on hand and continued positive trend in LIPA's fixed obligation charge ratio, could increase the possibility of an upgrade.

FACTORS THAT COULD LEAD TO A DOWNGRADE

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

LEGAL SECURITY

The 2018 Bonds will be issued pari passu to all outstanding senior debt obligations of the Authority and are secured by the revenues generated by the operation of LIPA's electric transmission and distribution system.

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. 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.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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