MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Long Island Power Authority, NY to A2 from A3; outlook stable

06 Sep 2019

Approximately $4.4 billion of debt securities affected

New York, September 06, 2019 -- Moody's Investors Service today upgraded the senior lien revenue bonds of Long Island Power Authority (LIPA or the Authority), NY to A2 from A3 and concurrently assigned an A2 rating to LIPA's planned issuance of upt to $540 million in Electric System General Revenue Bonds, Series 2019A and Series 2019B (Mandatory Tender Bonds). The debt issuance will fund a portion of the utility's capital expenditure program with the remainder funded from cash from operations and FEMA grants. The rating outlook for LIPA has been revised to stable from positive.

RATINGS RATIONALE

The upgrade and rating assignment reflects the economic strength of LIPA's service territory along with the continued improvement in LIPA's financial performance. Moreover, it considers our expectation for execution on the company's strategic goal focused on continual improvement on the company's financial position and operating performance. LIPA's key financial metrics in 2018 continue to improve. Specifically, the company's fixed charge coverage, as calculated by Moody's, improved to 1.27x in 2018 from 1.16x in 2017 and 1.11x in 2016 , while its debt ratio declined to less than 100% from 110% during the same timeframe. Going forward, we expect LIPA to maintain a fixed charge coverage in excess of 1.2x and its debt ratio to continue to trend downward.

Today's rating action considers improved levels of operating performance and customer satisfaction. Increased communications with customers and a capital program focused on hardening some of the systems' most vulnerable circuits and substations are drivers for these improvements. LIPA's capital spending in 2019 and 2020 are expected to exceed historical levels and approximate $1.6 billion over this timeframe. Components of the capital program include increased roll-out of smart meters and higher spending to improve poor performing circuits. LIPA intends on funding approximately 65% of its capital expenditures with new debt, resulting in approximately $1 billion of incremental general revenue debt over this period. LIPA's debt ratio over this timeframe is expected to decline, however, driven by the sizeable increase in plant property and equipment combined with operating cash flow, scheduled amortization, and the use of remaining FEMA grant funds as a funding source. Capital expenditures are expected to normalize in 2021.

While LIPA's fixed charge coverage ratio is somewhat weak for a mid-A rated public power utility, its cash flow stream is more stable than certain comparable utilities due to the strong suite of cost recovery mechanisms. For example, these mechanisms provide recovery should a shortfall from budgeted revenue and expense items occur due to external factors, including weather, storms and economic conditions. Moreover, its rate setting capacity is premised around an ability to meet a target debt service coverage ratio, which we view as a credit supportive feature.

LIPA is operating beyond the term of a three year rate plan that expired at the end of 2018. At this point, LIPA is only required to submit a proposed rate increase for regulatory review if it would increase delivery rates by more than 2.5%. A new rate case may be filed in the 2021/2022 timeframe.

RATING OUTLOOK

The stable outlook assumes LIPA maintains a sound operating track record while maintaining a at least 140 days cash on hand for liquidity support. LIPA's days cash on hand in 2018 was approximately 160 days.

FACTORS THAT COULD LEAD TO AN UPGRADE

LIPA's rating is well-positioned at the mid- 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 on a sustained basis while its debt ratio fell below 80%.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Unexpected deterioration in financial metrics, including fixed obligation charge coverage declining to below 1.2 times or total days cash on hand declining to below 90 days on an ongoing basis.

LEGAL SECURITY

The 2019 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. The bond resolution contains a basic flow of funds including a Rate Stabilization Fund. The Authority is required at all times to maintain on deposit in the Rate Stabilization Fund an amount not less than $150,000,000. There is no debt service reserve fund, which we consider to be a credit negative.

USE OF PROCEEDS

The $540 million issuance will fund in part the Authority's $869 million capital budget for 2019. Cash from operations and FEMA grants will provide the remainder of funding. The capital projects to be funded cover several areas of focus including increased roll-out of smart meters and higher spending to improve poor performing circuits.

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). 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 Methodology published in August 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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