Rating Action: Moody's assigns A2 to LIPA's (NY) $700 million Electric System General Revenue Bonds, Series 2020A,B&C; outlook is stable

24 Jul 2020

New York, July 24, 2020 -- Moody's Investors Service assigned an A2 rating to Long Island Power Authority's (LIPA or the Authority) (NY) approximately $700 million Electric System General Revenue Bonds, Series 2020A, Electric System General Revenue Bonds, Series 2020B (Mandatory Tender Bonds) and Electric System General Revenue Bonds, Series 2020C (Federally Taxable). These securities will rank on parity with LIPA's A2-rated outstanding senior lien debt. The outlook is stable.

RATINGS RATIONALE

The A2 rating reflects LIPA's strong cost recovery mechanisms that support a stable and predictable cash flow stream, the economic strength and size its service territory in the Long Island counties of Nassau and Suffolk and improved financial and operating performance.

LIPA's fixed charge coverage ratio has improved to approximately 1.3 times in fiscal year 2019 from 1.1 times in fiscal year 2016 while its debt ratio declined to 98% from 110% during the same timeframe. The drivers for the improved performance has been a combination of a rate plan that provided for predetermined annual rate increases totaling more than $300 million on a cumulative basis from 2016-2018 and execution by management on a financial strategy focused on improving the utility's financial footing. Electric base rate increases since 2018 have been limited to approximately 2% annually.

The financial impact of reduced economic activity within LIPA's service territory since March 2020 due to government mandated closure of non-essential businesses to combat the spread of Covid-2019 has been negligible as reduced electric demand from commercial and industrial customers has been offset by increased residential demand. Increased operating and maintenance expense relating to efforts to combat the spread Covid-19 combined with a higher projected accounts receivable write-off, however, will have a slightly negative impact on LIPA's financial performance relative to fiscal year 2019.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for LIPA. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of LIPA changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

The stable outlook assumes LIPA maintains a sound operating track record while maintaining at least 140 days cash on hand for liquidity support. LIPA's days cash on hand in 2019 was approximately 200 days.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- LIPA remains soundly positioned within its rating category and upward rating movement is not currently anticipated. 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 OF THE RATINGS

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

LEGAL SECURITY

The 2020 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 in its bank covenants to at all times 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 credit negative.

USE OF PROCEEDS

Up to $550 million of proceeds from the bond offerings will be used to fund in part LIPA's 2020 and part of its 2021 capital expenditure program. LIPA's capital expenditure program is primarily focused on improving service reliability and enhancing communications with its customers.

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


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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