MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a A2 rating to LIPA's Electric System General Revenue Bonds, Series 2021; outlook is stable

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Approximately $738 million of Electric System General Revenue Bonds Affected

New York, September 07, 2021 -- Moody's Investors Service assigned an A2 rating to Long Island Power Authority's (LIPA or the Authority) (NY) approximately $738 million Electric System General Revenue Bonds, Series 2021 consisting of $368.75 million Electric System General Revenue Bonds, Series 2021A, $175 million Electric System General Revenue Bonds, Series 2021B (Mandatory Tender Bonds) and $194.49 million Electric System General Revenue Bonds, Series 2021C (Federally Taxable). These securities will rank on parity with LIPA's A2 rated outstanding senior lien debt. The outlook is stable.

RATINGS RATIONALE

LIPA's A2 rating is supported by the utility's monopoly position as a provider of an essential service to large and diversified customer base with strong service area economic characteristics. With median household incomes and per capita metrics well above the national average the service area economy is arguably one of the strongest in the country and continues to be a positive factor underpinning LIPA's credit profile. Other positive credit factors include a suite of cost recovery mechanisms that support a stable and predictable cash flow profile and the utility's meaningful size and scale. These two considerations serve to provide resiliency to the utility's expected annual cash flow which has aided the growth in the utility's liquidity profile over the last several years. The rating, however, is balanced by LIPA's highly leveraged balance sheet, financial metrics that are somewhat weak for the mid-A rating category and recent challenges in restoring electric service after significant storms.

The rating considered a proposed settlement agreement between LIPA and PSEG Long Island, a wholly-owned subsidiary of Public Service Enterprise Group Incorporated (PSEG: Baa1, negative) relating to the Operating Services Agreement (OSA). Since 2014, PSEG Long Island has been LIPA's service provider pursuant to the OSA. The OSA provides PSEG Long Island broad control and responsibility for operating the utility, customer service, billing and collection, storm preparedness and service restoration.

LIPA, however, had been considering its options relating to the ongoing service provider following PSEG Long Island's delay in restoring electric service after Tropical Storm Isaias impacted its service territory in August 2020. A Task Force created to undertake an independent investigation into the failure of the utility's response after Isaias attributed blame on PSEG Long Island's managerial oversight for various failures and made a recommendation, among other things, to LIPA's Board of Trustees to renegotiate or terminate the existing OSA.

The objective of the proposed settlement is to provide stronger protections for LIPA's customers by increasing PSEG Long Island's accountability around service reliability. Terms include increasing the amount of PSEG Long Island's annual compensation at risk and incorporating automatic compensation reductions for failures to meet minimum standards. Moreover, the proposed settlement, which is expected to be finalized later in 2021, would subject PSEG Long Island to detailed performance requirements reset annually and strengthen its Long Island-based management team, ensuring that all PSEG Long Island employees report to managers located on Long Island.

RATING OUTLOOK

The stable outlook reflects LIPA's strong liquidity profile that is expected to remain in excess of $1 billion. LIPA's available cash available as of June 30, 2021 was in excess of $1.3 billion.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

LIPA is reasonably positioned within its rating category and upward rating movement is not currently anticipated. A sustainable improvement in key credit metrics, such as fixed obligation charge coverage of 1.50x and a debt ratio below 80%, could give rise to a higher rating.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Unexpected deterioration in key financial metrics, including fixed obligation charge coverage declining to below 1.20x on a sustained basis could trigger a negative rating action. To the extent that problems surrounding electric service restoration in a timely manner recur, it could have negative rating ramifications, especially if it results in political intervention.

LEGAL SECURITY

The 2021 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 with rate required to meet a 1.10x rate covenant. There is no debt service reserve fund, which we consider credit negative but balanced against LIPA's meaningful cash position.

USE OF PROCEEDS

Proceeds from the Series 2021A, Series 2021B and Series 2021C offering will be used to fund certain system improvements to LIPA's transmission and distribution system and to refund existing higher coupon indebtedness.

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 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this 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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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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