

Rating Action: Moody's assigns an A2 rating to LIPA's (NY) Electric System General Revenue Bonds, Series 2022A, B and C; outlook is stable

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Approximately \$344 million of Electric System General Revenue Bonds Affected

New York, August 09, 2022 -- Moody's Investors Service assigned an A2 rating to Long Island Power Authority's (LIPA or the Authority) (NY) approximately \$344 million Electric System General Revenue Bonds, Series 2022 consisting of \$144 million Electric System General Revenue Bonds, Series 2022A, \$100 million Electric System General Revenue Bonds, Series 2022B (Fixed Rate Mandatory Tender Bonds) and \$100 million Electric System General Revenue Bonds, Series 2022C (SIFMA Floating Rate Mandatory Tender Bonds). 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 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 considerations serve to provide a high degree of consistency to the utility's annual cash flow and 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 concerns around the utility's ability to restore service after meaningful storms.

There is a degree of uncertainty around LIPA's future service provider, although the eventual outcome is not expected to have a material credit impact. PSEG Long Island, a wholly-owned subsidiary of Public Service Enterprise Group Incorporated (PSEG: Baa2, stable), has been LIPA's service provider since 2014. The 2022 New York State Budget, however, enacted a legislative commission to conduct an examination of LIPA's future as a public utility, including whether LIPA should implement a public power model under which it manages its own workforce. A draft recommendation by the legislative commission is expected in December 2022.

LIPA's electric system operation is generally completed by approximately 2,500 personnel within an entity called ServCo, a wholly-owned LIPA subsidiary, and currently managed by employees of PSEG Long Island. LIPA pays PSEG Long Island a management fee for its services. All of LIPA's operating and maintenance costs are paid by PSEG Long Island, primarily to ServCo employees, for which LIPA fully reimburses PSEG Long Island.

Under a scenario where it is decided that LIPA should manage its own workforce, it would retain ownership of ServCo who would continue to maintain day-to-day operations of LIPA's assets albeit with different managerial oversight. Operating costs under this scenario would likely closely align with the current profile. While the recommendation of legislative commission is uncertain, we do not believe at this juncture that any change contemplated in the way service is provided to LIPA's customers should have material negative credit implications.

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 as of March 31, 2022 was in excess of \$1.5 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.

- LIPA's fixed obligation charge coverage and debt ratio as of December 31, 2021 were 1.25 and 95%, respectively.

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 2022 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 2022A, B and C offerings 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 1.2 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://ratings.moodys.com/api/rmc-documents/63746> . Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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 on <https://ratings.moodys.com/rating-definitions> .

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