



# ***Long Island Power Authority Board Meeting Discussion***


**November 16, 2022**

**Dennis Pidherny, Managing Director**

## RATING ACTION COMMENTARY

# Fitch Rates LIPA Electric System Rev Bonds 'A'; Outlook Positive

Thu 11 Aug, 2022 - 3:11 PM ET



Public Power  
United States

Issuer AnalysisPublic Power - Fitch Analytical Comparative Tool (FACT) - 2022

This section offers a detailed analysis of a particular issuer from the selected peer group. Choose an issuer from the dropdown to see its profile and rating history. For a chosen metric and year, the histogram gives the portfolio distribution for the metric; the two thin bars show where the issuer falls in the distribution, as well as the median of the selected comparison group. The area below gives a time series of the same metric to compare trends.

Issuer Profile (as of June 2021)

Select Issuer: Long Island Power Authority, NY

Long Island Power Authority, NY		Key Rating Drivers		Rating and Outlook/Watch History				
Rating	A	Revenue Defensibility	aa	2017	2018	2019	2020	2021
Region	NPCC	Operating Risk	bbb	A-	A-	A	A	A
System Type	Retail	Financial Profile	a	O: Stable	O: Stable	O: Stable	O: Stable	O: Positive

☐ Outlook ☐ Watch

## RATING ACTION COMMENTARY

# Fitch Rates Long Island Power Authority, NY's Ser 2017 Electric System Gen Revs 'A-'; Outlook Stable

Wed 22 Nov, 2017 - 1:25 PM ET

### *“RATING SENSITIVITIES*

*IMPROVED OPERATING STABILITY: A sustained trend of **improved operating and financial performance**, in particular a **material decline in leverage**, at the Long Island Power Authority, sufficient to offset political and consumer-driven rate pressures, could result in consideration of a positive rating action over the long-term.”*

## Key Rating Driver Comparison – Utility Fundamentals

November 2017

*“LIPA is one of the nation's largest municipal electric distribution systems, serving 1.1 million retail customers. The authority benefits from a flexible power supply mix, an **affluent and well-diversified customer base** and **cost recovery mechanisms** that stabilize cash flow. A series of comprehensive operating agreements with capable external service providers further support operations.”*

August 2022

*“LIPA's revenue defensibility assessment reflects the revenue stability provided by its primary role as a transmission and distribution utility, and **exceptionally strong service area profile**. The assessment also factors in LIPA's legal ability to determine rates, its **ability to recover 80% of costs through rate mechanisms** and its affordable cost of electric service.”*

## Key Rating Driver Comparison – Regulatory Oversight

November 2017

*“LIPA operates within the regulatory oversight of the New York State Department of Public Service (DPS), pursuant to the 2013 LIPA Reform Act. Fitch views many of the legislated provisions of the **LIPA Reform Act** as supportive of credit quality. However, added regulatory oversight could affect LIPA's financial and rate flexibility over time.”*

August 2022

*“Overall, Fitch views the **DPS's review and recommendations to date** as constructive. The DPS has positively endorsed several rate adjustment mechanisms to offset variability in some of LIPA's largest expense items, including debt service, storm damage, energy efficiency, PILOTs, and fuel and purchased power costs.*

*The authority has not proposed a rate increase of more than 2.5% since the initial rate plan concluded...obviating the need for DPS review. **To the extent** that increases exceeding 2.5% are necessary to support credit quality, and the **DPS review process** and **LIPA board approvals constrain revenue** over time, Fitch's assessment of rate flexibility could be lowered.”*



## Key Rating Driver Comparison – Retail Rate Pressure

*November 2017*

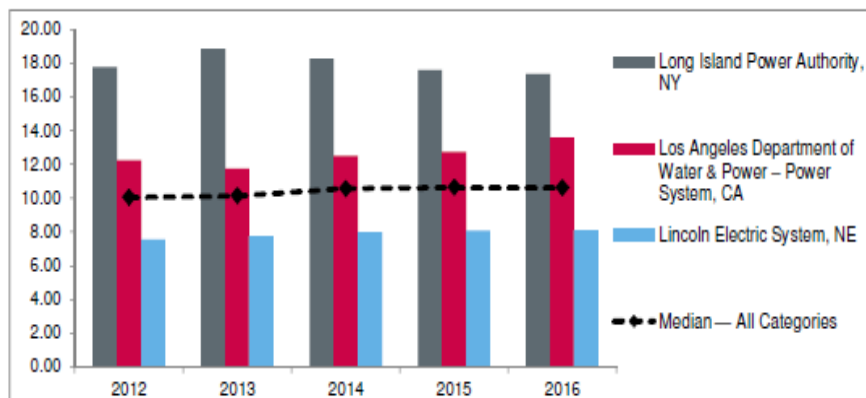
*“While electric rates have become more **competitive regionally**, political and consumer rate pressures persist as LIPA's average residential **revenue per kilowatt hour (kwh) remains high** relative to the rest of the nation at approximately 18.9 cents/kwh for 2016.”*

*August 2022*

*“LIPA's rate flexibility is further supported by the **regional competitiveness** of its retail rates and the very high affordability of electric service. While LIPA's residential rates of roughly 20 cents/kWh remain 17% above the New York state average, comparisons against neighboring systems, including Consolidated Edison Company of New York and United Illuminating, are more favorable. Moreover, **despite the absolute level of rates, the affordability of LIPA electric service remains very high.** The retail cost of electricity for LIPA's residential customers represents less than 2% of MHI, lower than the national average.”*

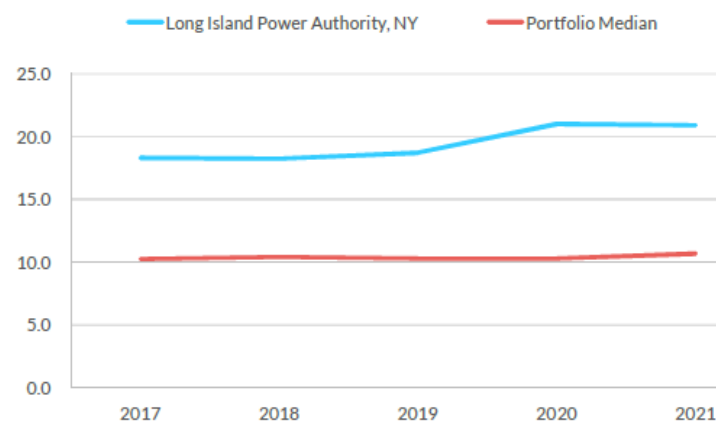
# Fitch Analytical Comparative Tool – Retail Rate Comparison

Retail Electric Revenue/kWh (¢/kWh)



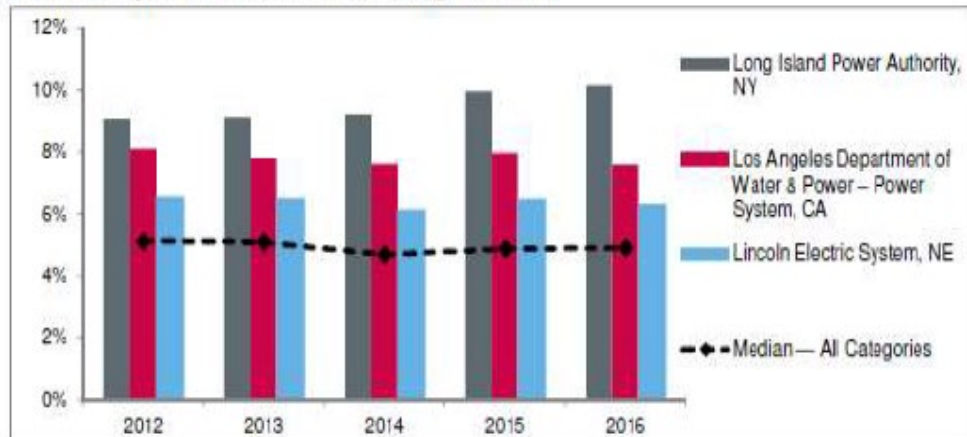
Retail Electric Revenue/kWh (¢/kWh)	2017	2018	2019	2020	2021
Long Island Power Authority, NY	18.279	18.237	18.703	20.994	20.91
Portfolio Median	10.2365	10.4	10.277	10.277	10.66

Indicates average revenue generated per unit sale (kWh).



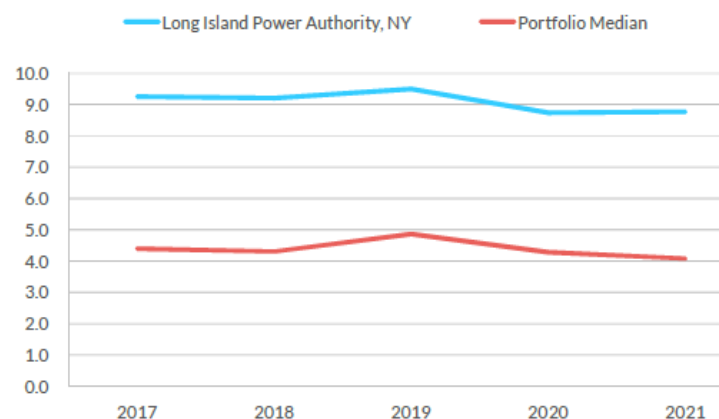
# Fitch Analytical Comparative Tool – Transfer Payment Comparison

Transfer Payment as a % of Operating Revenue



Transfers, PILOT & Tax/Total Operating Revenue (%)	2017	2018	2019	2020	2021
Long Island Power Authority, NY	9.26	9.21	9.5	8.74	8.77
Portfolio Median	4.39	4.305	4.86	4.28	4.08

#N/A





## Key Rating Driver Comparison – Financial Leverage

November 2017

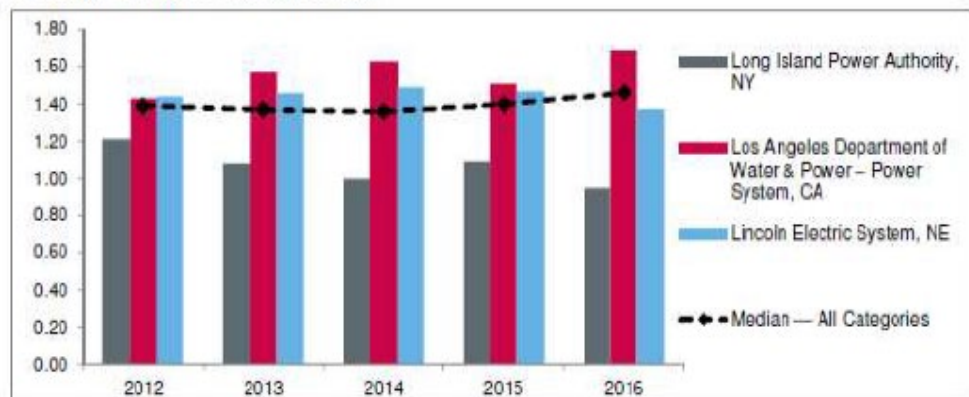
*“As of Sept. 30, 2017, LIPA's **debt levels**, including capital lease and securitization obligations, **remain high** totaling \$10.4 billion, and net debt to adjusted funds available for debt service at **9.6x is well above the peer utility median of 6.5x**. While Fitch recognizes the benefits of the separately secured \$4.5 billion in securitized debt, the repayment profile remains an obligation and burden of current ratepayers. Positively, LIPA's three-year rate plan aims to reduce debt financing of future capex which will moderate future borrowings.”*

August 2022

*“Leverage has also **steadily improved to 8.3x at YE2021 from over 9.8x in 2015**, due to the authority's improved cash flow and its accumulation of cash reserves. Fitch calculates LIPA's net adjusted **debt** burden for 2021 at roughly \$12.8 billion, which is **higher than historical levels**, but a significant portion of the increase reflects LIPA's adoption of accounting guidelines for leases. The calculation incorporates LIPA's long- and short-term borrowings (\$12.3 billion; including Utility Debt Securitization Authority [UDSA] borrowings) and capitalized purchased power obligations pursuant to Fitch's criteria (\$2.0 billion)..”*

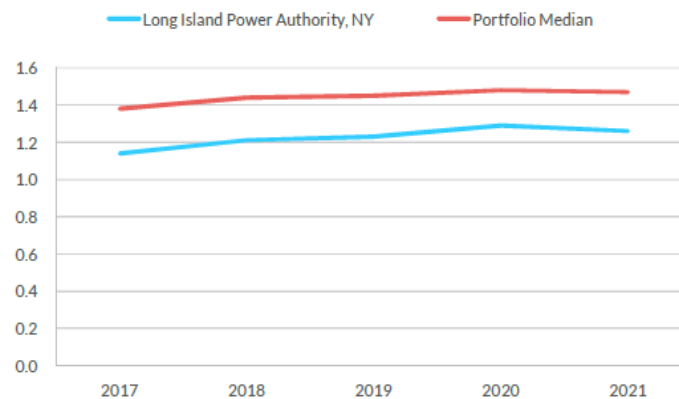
## Fitch Analytical Comparative Tool – Coverage of Full Obligations

Coverage of Full Obligations (x)



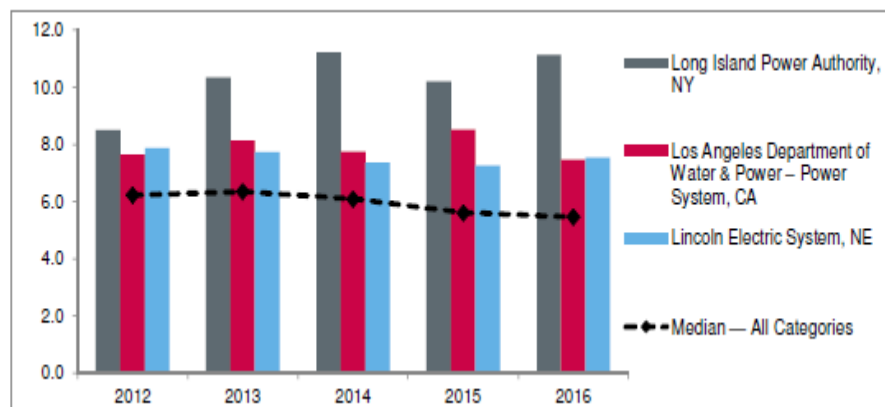
Coverage of Full Obligations (x)	2017	2018	2019	2020	2021
Long Island Power Authority, NY	1.14	1.21	1.23	1.29	1.26
Portfolio Median	1.38	1.44	1.45	1.48	1.47

Indicates the margin available to meet current debt service requirements and other fixed obligations.



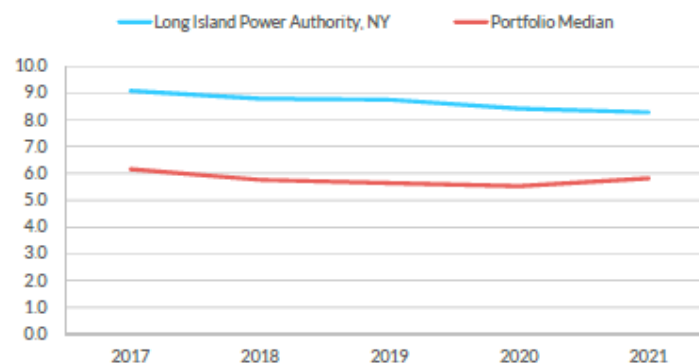
# Fitch Analytical Comparative Tool – Leverage Ratio – Net Adjusted Debt to Adjusted FADS

Net Adjusted Debt/Adjusted FADS (x)



Net Adjusted Debt/Adjusted FADS (x)	2017	2018	2019	2020	2021
Long Island Power Authority, NY	9.08	8.79	8.75	8.41	8.28
Portfolio Median	6.155	5.76	5.645	5.52	5.81

Indicates the size of net debt and off-balance sheet obligations to the margin available to meet all debt service, fixed obligations, and transfers and distributions to owners.



## Key Rating Driver Comparison – Liquidity Ratios

### November 2017

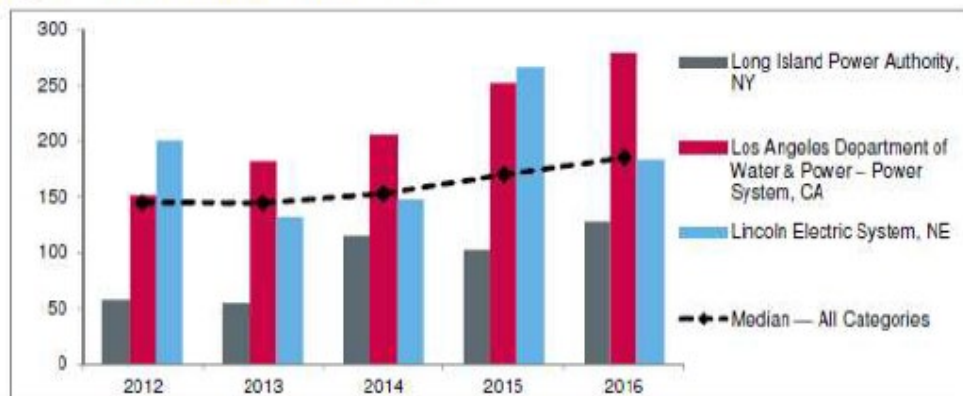
*“For fiscal year end 2016, LIPA's internal **liquidity was adequate at 92 days operating cash**, although below the rating category median of 137 days. Positively, days liquidity, which incorporates available external bank lines, rises to **202 days**, in-line with their peers.”*

### August 2022

*“LIPA's liquidity profile also improved, supporting a neutral assessment. Total liquidity, including borrowing capacity under its revolving credit agreement and CP program, **improved to 333 days in 2021 from 251 days in 2017**. LIPA intends to maintain solid liquidity levels of **at least \$250 million in cash** and a available credit of **at least 120 days of operating expenses**.”*

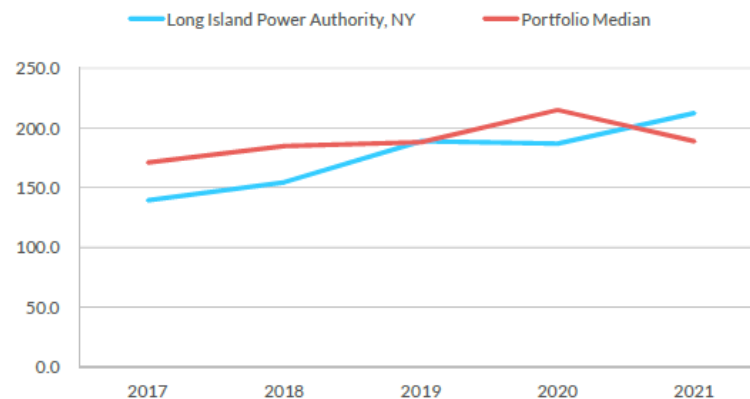
## Fitch Analytical Comparative Tool – Days Cash on Hand

Days Cash and Investments on Hand



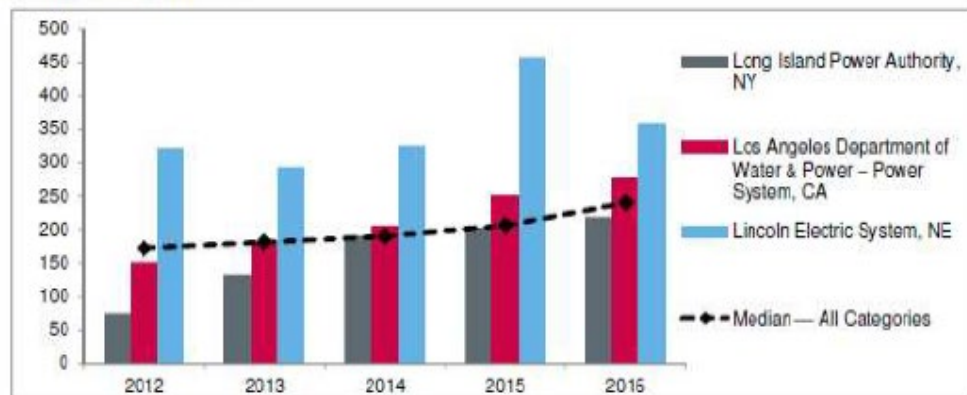
Days Cash on Hand	2017	2018	2019	2020	2021
Long Island Power Authority, NY	139.25	154.51	188.78	186.7	212.29
Portfolio Median	170.94	184.585	188.015	215.02	188.67

Indicates financial flexibility, specifically cash and short-term investments, relative to expenses.



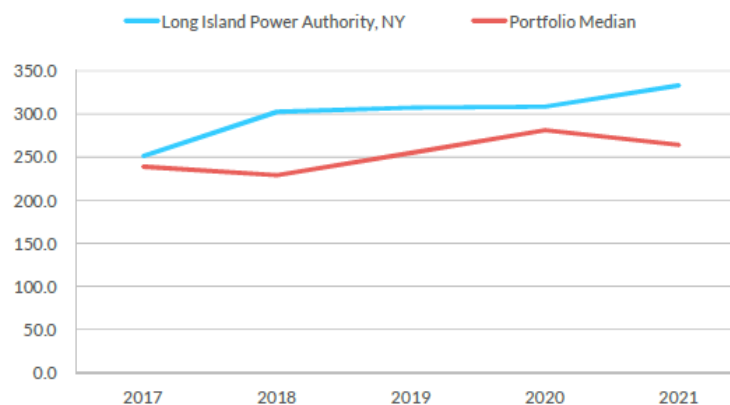
# Fitch Analytical Comparative Tool – Liquidity Cushion

## Days Liquidity on Hand



Liquidity Cushion (Days)	2017	2018	2019	2020	2021
Long Island Power Authority, NY	251	302.31	307.11	308.25	332.84
Portfolio Median	238.965	228.84	254.575	281.14	264

Indicates financial flexibility, including all available sources of cash, short-term investments and liquidity, relative to expenses.



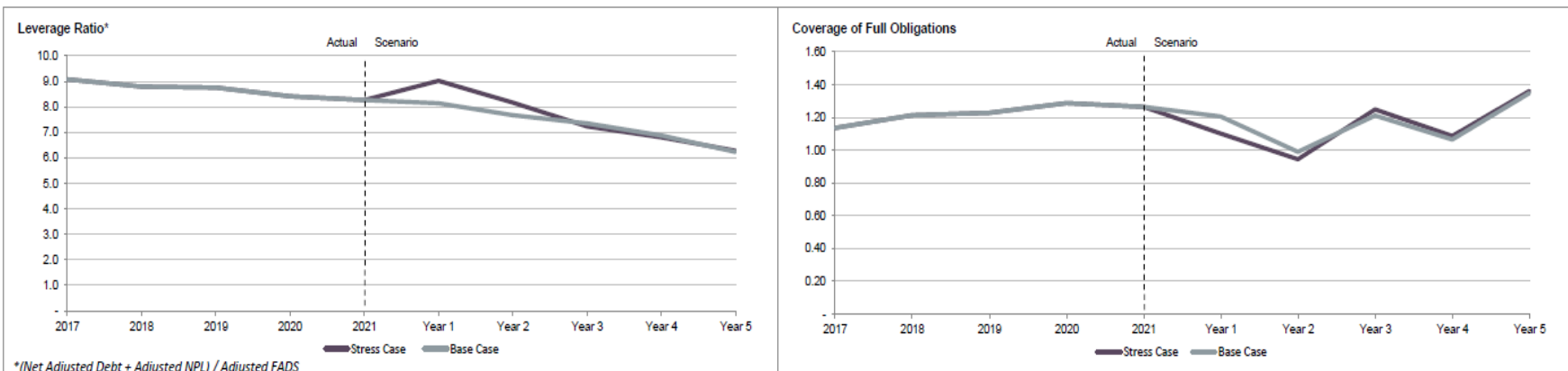


# Fitch Analytical Stress Test – Long Island Power Authority

## Long Island Power Authority (NY)

Version 21

### FAST Public Power - Fitch Analytical Stress Test - Scenario Analysis



#### Key Financial Metrics

							Base Case					Stress Case				
		2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
1	Net Adjusted Debt (Adj. for Purch. Pwr) + Adj. NPL / Adjusted FADS (Leverage)	9.1	8.8	8.8	8.4	8.3	8.1	7.7	7.4	6.9	6.2	9.0	8.2	7.2	6.8	6.3
2	Coverage of Full Obligations	1.1	1.2	1.2	1.3	1.3	1.2	1.0	1.2	1.1	1.3	1.1	0.9	1.2	1.1	1.4
3	Days Cash & Investments on Hand	139	155	189	187	212	223	177	169	134	148	208	151	151	120	136
4	Debt Service Coverage	1.5	1.7	1.7	1.7	1.7	1.6	1.2	1.6	1.3	1.8	1.5	1.2	1.6	1.4	1.8



# ***Key Issues for the U.S. Public Power Sector***

**Long Island Power Authority Board  
Meeting**

**November 16, 2022**

**Dennis Pidherny, Managing Director**

## *Key Outlook Issues – Operating Costs*

### **Acute Near-Term Operating Cost Pressures Build**

*“Sustained inflationary pressures and rising costs, in our opinion, represent the single greatest risk to financial performance and credit quality in 2022.”*

*~ Fitch Ratings, January 2022*

*“Given the sector’s growing reliance on natural gas generation...a sudden unexpected rise in natural gas costs remains a concern.”*

*~ Fitch Ratings, December 2020*

## Key Outlook Issues – Operating Costs

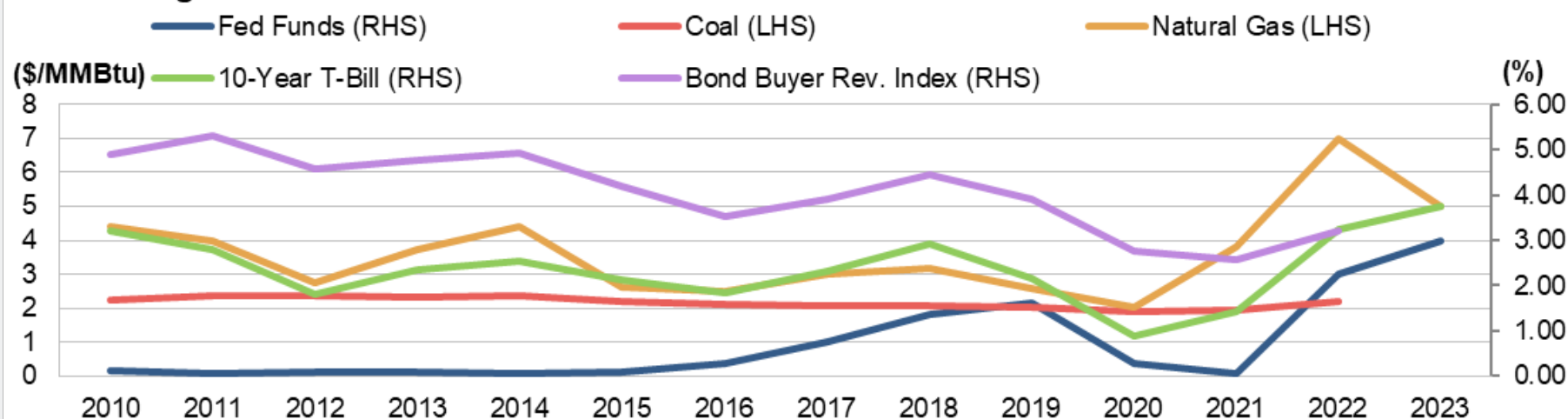
### Acute Near-Term Operating Cost Pressures Build

- Operating costs are subject to upward inflationary pressure over the near term; Fitch estimates that inflation totaled 7.0% at YE21 and **core inflation is now expected to remain at 7.0% through YE22** reflecting the intensification of energy supply shocks and unrelenting tight labor market conditions.
- Over the longer term relief is expected; Estimates for 2023 and 2024 are lower than current levels at **3.6% and 2.7%**, respectively, but higher than previous estimates.
- Fitch's base case natural gas prices for **2022 and 2023 were recently raised yet again to \$7.0/mcf (cubic feet) and \$5.0/mcf**, respectively, reflecting higher demand and growing LNG capacity. Production growth is modest as U.S. producers remain focused on maximizing cash flow. significantly increased risks of supply disruptions. Over the longer term, prices are expected to stabilize at the historically favorable level of \$2.75/mcf as production grows and export economics erode.
- Many public power utilities face a myriad of other increased costs including those related to ramped up wildfire mitigation, extreme weather events and cybersecurity.
- Wholesale electric prices are also facing upward pressures, as the availability of excess generating capacity is absorbed, and natural gas prices and electric demand rise.

## Key Outlook Issues – Operating Costs

### Acute Near-Term Operating Cost Pressures Build

#### U.S. Average Cost of Fuel and Interest Rates



MMBtu – Million British thermal units.

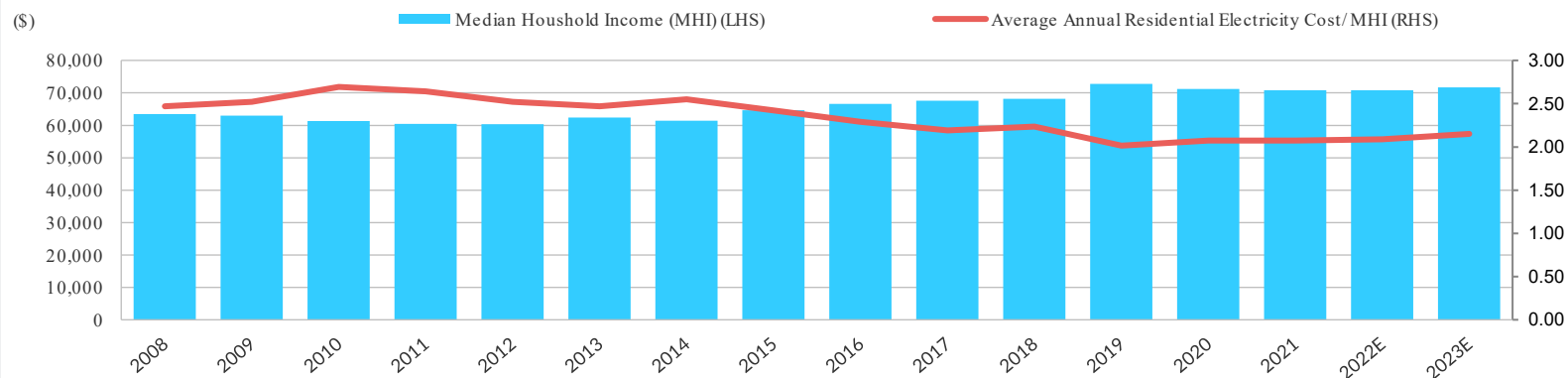
Source: U.S. Energy Information Administration, U.S. Federal Reserve.

## Key Outlook Issues – Affordability of Electric Service

### Affordability Expected to Weaken

- Affordability ratios have remained strong in recent years - roughly 2.0% of real median household income [MHI] - as figures for MHI were bolstered by expanded unemployment insurance; Including pandemic relief payments, MHI was even higher and affordability ratios fell below 2%.
- Affordability going forward is expected to hinge on MHI and real energy costs.
- Overall, we expect a weakening in affordability; While nominal wages rise with inflation, real household income is expected to plateau;

Residential Electric Cost to Median Household Income



E – Estimate.

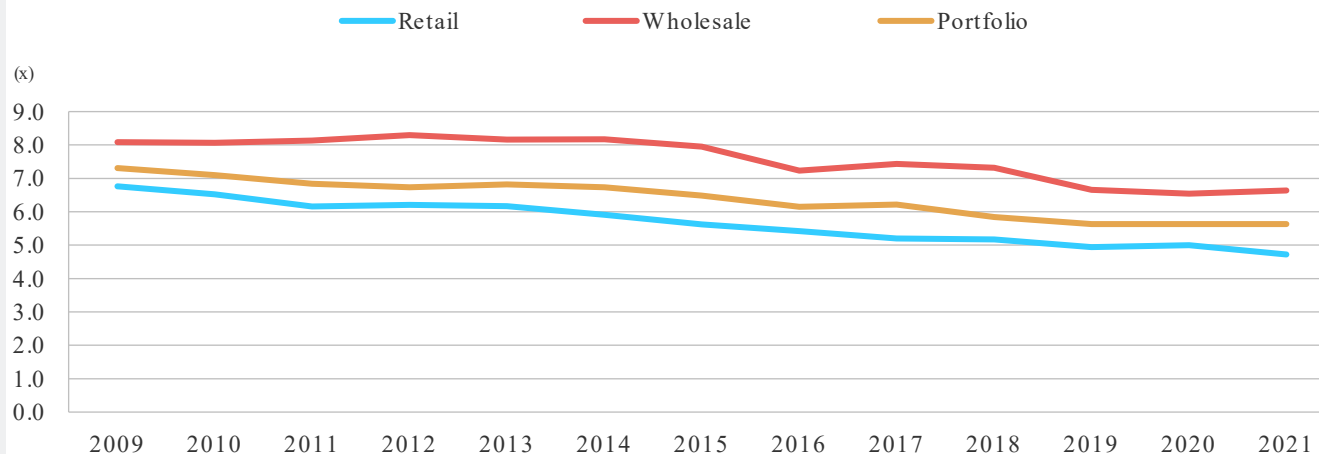
Source: Fitch Ratings, EIA, IHS Markit, U.S. Census.



## Key Outlook Issues – Financial Leverage

### Net Adjusted Debt/ Adjusted FADS (Excluding Pensions)

(Indicates the size of net debt and other fixed obligations compared with the margin available for debt service.)

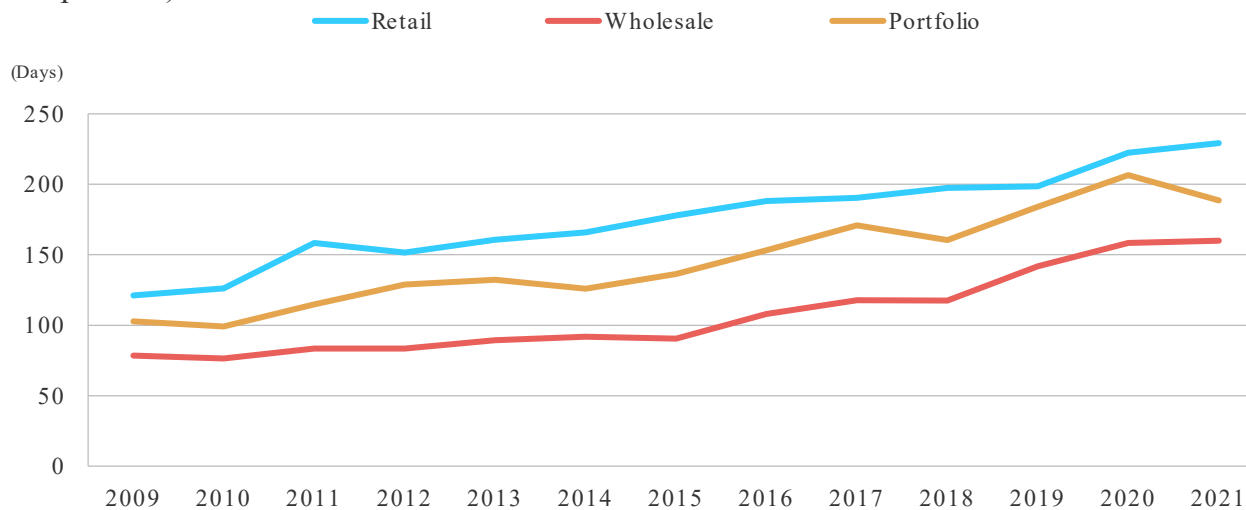


FADS – Funds available for debt service.  
Source: Fitch Ratings.

## Key Outlook Issues – Liquidity

### Days Cash on Hand

(Indicates financial flexibility, specifically cash and cash equivalents, relative to expenses.)



Source: Fitch Ratings.

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