



Rating Action: Moody's assigns an A2 rating to Long Island Power Authority's (NY) Series 2023 General Revenue Bonds

20 Jul 2023

Approximately \$580 million of debt securities affected

New York, July 20, 2023 – Moody's Investors Service assigned an A2 rating to Long Island Power Authority's (LIPA or the Authority) (NY) approximately \$580 million Electric System General Revenue Bonds, Series 2023 consisting of \$400 million Electric System General Revenue Bonds, Series 2023E and \$180 million Electric System General Revenue Bonds, Series 2023F. 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 a 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 as demonstrated by a fixed charge coverage ratio that has consistently been in the 1.20-1.30x range. The rating, however, is balanced by LIPA's highly leveraged balance sheet, financial metrics that, while consistent, remain somewhat weak for the mid-A rating category and concerns around the utility's ability to restore service after meaningful storms.

In that regard, a degree of uncertainty persists 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. The commission issued its draft report in April 2023 that concluded LIPA can save a significant amount for ratepayers by transitioning LIPA into a public power provider that both owns and operates the electric grid within its service territory. A final report which will include a draft bill to implement the recommendations outlined is expected in November 2023.

LIPA's electric system operation is generally completed by approximately 2,600 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, and all of the operating and maintenance costs, including for ServCo employees.

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. As such, we do not believe at this juncture that any change contemplated in the way service is provided to LIPA's customers should have material implications to LIPA's financial profile.

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 December 31, 2022 was approximately \$1.7 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, 2022 were 1.23 and 90%, 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 timely electric service restoration recurs, negative rating ramifications could resurface, especially if it results in political intervention.

LEGAL SECURITY

The 2023 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 rates 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 2023E and 2023F 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 published in January 2023 and available at <https://ratings.moodys.com/mc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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