FitchRatings

RATING ACTION COMMENTARY

Fitch Rates LIPA Electric System Rev Bonds (NY) 'A+'; Outlook Stable

Thu 07 Aug, 2025 - 5:27 PM ET

Fitch Ratings - New York - 07 Aug 2025: Fitch Ratings has assigned an 'A+' rating to the following Long Island Power Authority, NY (LIPA) bonds:

--Approximately $516 million electric system general revenue bonds series 2025A;

--Approximately $250 million electric system general revenue bonds series 2025B (fixed rate mandatory tender bonds);

-Approximately $150 million electric system variable rate demand general revenue bonds series 2025C (underlying rating).

Fitch has also assigned an 'A+' bank bond rating to the 2025C bonds. The bank bond rating is assigned to the 2025C bonds but will only become applicable if the bonds cannot be remarketed and are purchased by the bank providing the liquidity facility.

Proceeds of the series 2025A and 2025B bonds will be used to fund system improvements, refund certain outstanding bonds and pay the costs of issuance. The series 2025A bonds will be sold with a fixed rate and amortize through 2055. The series 2025B bonds will be issued as multi-modal bonds and initially sold with a fixed interest rate through the mandatory tender date. The series 2025C bonds will be issued to refund certain outstanding debt of the authority and pay issuance costs.

The 2025A and 2025B bonds are expected to price the week of Aug. 11, 2025.

Fitch has additionally affirmed LIPA's Issuer Default Rating (IDR) and the following outstanding bonds at 'A+':

--Approximately $5 billion senior-lien electric system revenue and refunding bonds.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Long Island Power Authority (NY)	LT IDR	A+	Affirmed	A+
Long Island Power Authority (NY) /Electric System Revenues/1 LT	LT	A+	Affirmed	A+

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

LIPA's 'A+' IDR and bond ratings reflects its improved leverage ratio and Fitch's expectation that the gradual but consistent deleveraging trend that began in 2015 will continue through 2028. Leverage, measured by net adjusted debt to adjusted funds available for debt service (FADS), improved to 7.1x at YE 2024 from 8.8x in 2019, from slightly stronger FADS and lower net adjusted debt. The results for 2024 are better than previously expected, and the overall improvement is in part attributable to LIPA's strategy of budgeting to achieve higher fixed-obligation coverage.

LIPA's operating income is expected to remain strong in 2025, although results may be slightly lower than achieved the previous year. LIPA's leverage ratio is projected to increase slightly in 2025 relative to 2024 but trend toward 7.0x through 2028, which is consistent with the 'A+' rating. This trend continues to benefit from LIPA's revenue-decoupling mechanism (RDM), timely cost recovery and modest but consistent rate increases designed to achieve higher fixed-obligation coverage.

LIPA's very strong service area, disciplined rate setting approach and authorized RDM should sustain its very strong revenue defensibility and overall performance even through periods of stress, further supporting its financial profile. LIPA's operating cost burden remains comparatively high within the sector. Ongoing efforts to moderate costs and operating risk under an updated operating services agreement (OSA) with system operator PSEG Long Island (PSEGLI) are reasonably successful and factored in the rating. LIPA expects to continue outsourcing the operation of the system after the current OSA's expiration at YE 2025 and is in the early stages of negotiating an extension with PSEGLI. The original agreement contains an extension for up to an additional five years upon mutual agreement by both parties.

While the departure of several members of LIPA's senior management team over the past couple of years is a potential concern. The authority has retained several key managers and has indicated its intent to preserve its strategic objectives and policies on fiscal sustainability. A new CEO with more than two decades of relevant utility and management experience was hired in June 2025. Many of LIPA's remaining senior staff also have extensive backgrounds in utility management and long tenures with the authority, which along with the new CEO should provide consistency to LIPA's operating and financial performance.

SECURITY

The bonds are senior-lien obligations of LIPA secured by its net revenues of the electric system, after payment of operations and maintenance (O&M) expenses.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

LIPA's very strong revenue defensibility assessment reflects the revenue stability provided by its exclusive role as the electric transmission and distribution utility provider serving Long Island, in addition to the exceptionally strong profile of its service area. The assessment also factors LIPA's legal ability to determine rates and its affordable cost of electric service, as well as its ability to recover roughly 80% of costs through various rate mechanisms and offset variability in energy sales through its RDM, which adjusts for any variance between actual and budgeted revenues.

Rate increases over 2.5% are subject to regulatory review by the New York State Department of Public Service. However, this is not viewed as a credit risk considering LIPA's other adjustable rate mechanisms. The authority has not proposed a rate increase of more than 2.5% since the initial rate plan in 2015.

Operating Risk - 'bbb'

Fitch assessed the operating risk as 'midrange, reflecting operating costs well-above the national average and ranging between roughly 16 cents/kWh and 19 cents/kWh over the last five years. LIPA's relatively high operating cost burden reflects legacy acquisition costs, challenges related to serving LIPA's island geography and high payments in lieu of taxes (PILOTs). Operating costs fell to 16.6 cents/kWh in 2023 from 19.2 cents/kWh in 2022 from lower natural gas prices and power supply costs. Costs were closer to 18 cents/kWh in 2024 and are expected to remain near these levels going forward.

LIPA's power supply portfolio is well diversified and comprises purchased capacity from units located on Long Island and elsewhere that comfortably meet the area's peak demand. Natural gas is the predominant fuel source for the vast majority of contracted capacity, supplemented by smaller amounts of nuclear, solar, hydroelectric, oil-fired and refuse-derived capacities.

Plans to add sizable amounts of contracted offshore wind and solar capacities are expected by Fitch to further diversify the authority's portfolio and comply with New York State's clean energy goals. Capital spending is high at roughly $4.9 billion over the next five years; it will focus on improving system resilience and reliability and supporting modest load growth.

Financial Profile - 'a'

Lower leverage of 7.1x and stable coverage of full obligations of 1.26x in 2024 reflect a series of base rate increases and the resulting improvement in FADS, together with strong and stable available cash. Following four years of operating income of just over $1.06 billion, margins improved in 2024 to about $1.15 billion, which along with a slight decline in net adjusted debt led to the lower leverage for the year. Unrestricted cash totaled $1.43 billion, or 217 days on hand, at the end of 2024. Liquidity facilities provide additional liquidity totaling 354 days on hand.

Fitch's forward-looking analysis considers the potential trend of key ratios in a base and stress scenario over a five-year period. The stress scenario is designed to impose a moderate load decline in the first two years from base case levels and evaluate potential variability in projected key ratios. The scenarios are informed by management's financial planning forecast and assumptions, including stable projected operating performance and annual capital spending supported by debt issuances.

Fitch's scenario analysis indicates leverage is expected to increase slightly in 2025 and 2026 as margins return to previous levels but remain below 8.0x and perhaps trend closer to 7.0x, which is consistent with the financial profile assessment and the 'A+ rating. While leverage ratios could push higher in stress scenarios involving significantly lower sales, any weakness is expected to be temporary considering LIPA's flexibility under the RDM to recover lost revenue. Leverage metrics excluding securitized restructuring bonds issued through the Utility Debt Securitization Authority are slightly stronger and similarly support the current rating.

Fitch expects liquidity to remain robust and coverage to be within historical ranges in its rating case scenario. The agency's key financial ratios and analysis consider LIPA's approximately $3.3 billion in outstanding securitization bonds.

Asymmetric Additional Risk Considerations

There are no asymmetric additional risk considerations factored in the ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Failure to sustain leverage approximating 8.0x in Fitch's rating case scenario;

-- Failure to adhere to stated policies related to financial sustainability, including fixed charge coverage targets;

-- Failure to implement rate increases consistent with its financial budget;

-- Any change in management structure, strategic objectives or financial policies, or failure to procure adequate service provider arrangements, that increases operating or financial risk and/or weakens credit quality.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- A sustained reduction in leverage below 7.0x in Fitch's rating case scenario;

-- Demonstrated operating stability and strong performance across the system's external service providers.

PROFILE

LIPA owns one of the largest municipal electric distribution systems in the U.S., serving approximately three million people throughout New York's Nassau (AA/Stable) and Suffolk (A/Positive) counties and the Rockaway section in Queens. LIPA owns the electric transmission and distribution system located throughout its service territory. However, the system's O&M and significant responsibilities for power supply are contracted with external service providers.

LIPA and PSEGLI amended their existing OSA in April 2022 to place a greater share of PSEGLI's compensation at risk based on performance, introduce a wider array of metrics to evaluate performance, strengthen accountability, facilitate long-term planning and separate systems dedicated to LIPA. The amended OSA is set to expire at the end of 2025 but contains a provision allowing for the extension of the agreement for up to an additional five years upon mutual agreement by both parties. LIPA has identified a team of executives to direct negotiations for an extension, which it expects to complete prior to expiration. An extended agreement will be subject to approval by the NYS Attorney General and Office of Comptroller. Fitch expects an agreement will be reached, and there will be no interruption in service.

In 2024, together with a formal request for proposal to identify future service providers for the OSA, LIPA requested proposals for new power supply management and fuel management services. These services are provided through an agreement with PSEG Energy Resources & Trade LLC, a PSEG affiliate, through the end of this year. In late 2024, LIPA chose

The Energy Authority (TEA) to provide these services which include procurement and supply of fuel, managing LIPA's hedging program and managing the power supply requirements in the regional power markets. The services are similar in scope to those provided by PSEG. TEA is a non-profit utility portfolio management company based in Jacksonville, FL.

The majority of LIPA's generating capacity is provided under a power supply agreement (PSA) with National Grid Plc (BBB-/Stable). The PSA, which extends through April 2028, provides LIPA with access to approximately 3,600MW of on-island generating capacity owned by National Grid Plc. LIPA also maintains an ownership interest in the Nine Mile Point 2 (NMP2) nuclear facility. The remainder of LIPA's capacity and the majority of its energy supply are met through a portfolio of purchased power agreements, including off-island and market purchases.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 10 Jan 2025) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 24 Feb 2025) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Long Island Power Authority (NY)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.