

## Research Update:

# Long Island Power Authority, NY's \$766.7 Million Series 2025A&B Electric System General Revenue Bonds Rated 'A'

August 6, 2025

## Overview

- S&P Global Ratings assigned its 'A' long-term rating to the [Long Island Power Authority](#) (LIPA or the authority), N.Y.'s proposed \$515.2 million electric system general revenue bonds, series 2025A, and \$251.5 million electric system general revenue bonds (fixed rate mandatory tender), series 2025B.
- At the same time, S&P Global Ratings affirmed its 'A' long-term rating and underlying rating (SPUR) on the authority's previously issued revenue bonds and its 'AA+/A-1' dual rating on the authority's series 2023D bonds.
- The outlook is stable.

## Rationale

### Security

Net revenue of LIPA's electric system secures the proposed and previously issued revenue bonds. Net revenue and a letter of credit from Barclays Bank PLC jointly support the series 2023D bonds. The authority pays debt service on its revenue bonds and joint support debt from the revenue remaining after paying the operating expenses of the electric system. The authority had \$7.6 billion of debt, including unamortized premium, and lease obligations outstanding at the end of fiscal 2024.

The series 2025A bonds will be issued as fixed-rate obligations, with new money and refunding components. The series 2025B refunding bonds are being issued as multimodal "soft put" bonds, bearing interest at a fixed rate for the initial term rate period, subject to mandatory tenders at the end of each term mode interest rate period, at the option of LIPA beginning a few months prior to the end of the initial term, and on any mode change date. We do not consider the soft put a contingent liability for LIPA; in the event that LIPA is unable to fully remarket the tendered

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bonds, the bonds will remain with existing bondholders and no event of default will occur, although the bonds would then carry a higher interest rate until they can be remarketed or refunded, with exact terms negotiated at pricing.

We assigned our rating to the revenue bonds outstanding by applying our "[U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions](#)" criteria, Sept. 27, 2018, on RatingsDirect. In addition, we have applied those provisions of our "[U.S. Municipal Water, Sewer, And Solid Waste Utilities](#)" criteria, April 14, 2022, which delineates S&P Global Ratings' methodology for assessing the impact of securitized debt. As of Dec. 31, 2024, LIPA had \$3.5 billion of securitized debt outstanding, issued by its component unit, the Utility Debt Securitization Authority (UDSA). An irrevocable, nonbypassable consumption-based charge, and not the trust estate that secures LIPA's electric revenue bonds, secures the UDSA debt.

LIPA is in the process of amending and restating its bond resolution; we believe the proposed changes are credit neutral. The authority distinguishes the changes into two categories: consolidation amendments and additional amendments. The consolidation amendments will enable LIPA to merge with its wholly owned subsidiary the Long Island Lighting Co. in furtherance of retiring that entity. The additional amendments include permitting payments in lieu of taxes to be paid as operating expenses, increasing LIPA's rate covenant to 110% from 100%, requiring a debt service coverage ratio to issue bonds, and eliminating the requirement of a consulting engineer report every other fiscal year. We believe that the increased rate covenant provision would provide bondholders with stronger protection but would not materially affect credit quality.

## Credit highlights

The authority provides electric service to about 1.2 million customers in Nassau and Suffolk counties and a portion of Queens County known as the Rockaways. LIPA is a political subdivision of the State of New York, governed by a board of trustees appointed by the governor and legislative leadership.

LIPA outsources the management of its operations to a for-profit, investor-owned utility, currently PSEG Long Island (PSEGLI), a subsidiary of the Public Service Enterprise Group, under a contract that expires Dec. 31, 2025. PSEGLI receives from LIPA a management fee and passes through the operating costs of its ServCo subsidiary, which handles the day-to-day operations of the utility. (See "Credit Opinion" section for further detail.) The authority intends to extend the contract by five years, and negotiations are underway, but we believe LIPA's negotiating position is weak in that it lacks an alternative to PSEGLI given the proximity to the contract's expiration.

The rating reflects our view of LIPA's:

- Large, predominantly residential, and affluent customer base, contributing to revenue stability and predictability.
- Stable and supportive fixed-cost coverage (FCC) averaging 1.3x in the past three years. Based on LIPA's financial forecast, we expect FCC will remain at this level for the next five years.
- Sound liquidity, with unrestricted cash and undrawn capacity on credit lines measuring 187 days of operating expenses at the end of fiscal 2024, as calculated by S&P Global Ratings.

Partly offsetting the above strengths, in our view, are LIPA's:

- Operational uncertainty resulting from the expiration of the PSEGLI contract on Dec. 31, 2025.

- Transitioning power supply, as the utility seeks to comply with New York State's ambitious decarbonization mandate, the Climate Leadership and Community Protection Act (CLCPA), which directs the state's utilities to source 70% of their electricity from renewable resources by 2030 and 100% from carbon-free resources by 2040. We believe that achieving this will be very challenging, as it will depend on the progress of both onshore and offshore renewable buildout, which we view as very uncertain because of operational, supply chain, and financial hurdles. Nevertheless, we note that these risks are largely the same for LIPA as for other utilities in New York.
- Requirement to submit any proposed base rate increase that would raise revenue by more than 2.5% for review to the New York State Department of Public Service, although LIPA's board retains final rate-setting power. Myriad pass-through and decoupling mechanisms that reduce the need for more sizable rate increases mitigate--but do not eliminate--credit risk. The mechanisms provide automatic recovery of power costs as well as the cost of complying with the CLCPA, and decouples budget-to actual revenue variances for any reason, including economic conditions such as write-offs.
- Highly leveraged transmission-and-distribution system. Excluding the separately secured UDSA debt, the authority's debt-to-capitalization ratio was 88% at the end of fiscal 2024. Capital needs are sizable (about \$1 billion annually over the next five years, with about two-thirds expected to be debt financed). We expect that LIPA will remain highly leveraged.

## Environmental, social, and governance

We believe that climate transition risks exert a negative influence on the rating. The utility's power supply is in transition because of New York's statewide mandates. Moving LIPA toward a zero-emissions electric system in compliance with the CLCPA would mean both adding new clean energy sources and retiring older fossil-fueled power plants, which we believe would introduce operational risks and costs. In addition, the service territory's extensive coastal exposure heightens susceptibility to storm damage and rising tides attributable to climate change. LIPA has incurred more than \$700 million in storm costs since 2015. Federal Emergency Management Agency reimbursements covered a substantial portion of these costs and, together with mitigation grants from the agency, funded storm hardening, reliability, and resiliency capital expenditure.

We view social capital as having a neutral impact on the rating. According to U.S. Energy Information Administration data, LIPA's weighted average rate in 2023 was 103% of the state average, which we view as generally affordable given the service area's elevated median household buying income compared with the national level. We are monitoring the strength and stability of electric utilities' revenue streams given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs as a result of investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector's build cycle. The economy's stressors and the associated financial pressures consumers are facing (including diminished consumer confidence and expectations of rising inflation and unemployment), coupled with high unpredictability around federal policy, might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics. (See ["Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth,"](#) June 24, 2025.)

We associate elevated governance risk with the utility because of the requirement that LIPA litigate rate adjustments that seek to increase base rate revenue by more than 2.5% per year. Since being imposed, this threshold has not been breached, and we believe that several pass-through and decoupling mechanisms diminish the potential need to exceed the threshold. We also believe that risk management, culture, and oversight are deficient because LIPA has yet to finalize its operating contract with PSEGLI beyond Dec. 31, 2025.

## Outlook

The stable outlook reflects our view of credit-supportive pass-through mechanisms that have promoted cost recovery across economic cycles, helping LIPA maintain FCC and liquidity. The outlook further reflects our view of high income levels, which suggest modest rate-raising flexibility.

### Downside scenario

We could lower the rating if our forward-looking view of FCC, liquidity, or debt comes to suggest deterioration, or if rate-raising flexibility were to be compromised. In our view, this could result from energy transition pressures as LIPA seeks to comply with the CLCPA. In addition, we could lower the rating if LIPA's management team struggles to execute on long-term strategic plans.

### Upside scenario

We do not expect to raise the rating during the two-year outlook because we believe the utility faces meaningful operational and financial exposures, including unresolved questions about third-party management of day-to-day operations, a sizable capital program, and the uncertain costs of decarbonization.

## Credit Opinion

### A deep and diverse service area underpins creditworthiness

One of the largest public power utilities in the U.S., the authority serves about 1.2 million retail customers in Nassau, Suffolk, and Queens counties, where income levels are about 160% and 147% of the national household effective buying income, respectively. In our view, well-above-average incomes support rate-raising flexibility, although ratepayer perception of service delivery shortcomings in the aftermath of Superstorm Sandy has challenged this. The utility derives more than half of its revenue from residential customers and the balance from commercial and governmental customers. We view the sizable revenue contributions from residential customers and the absence of substantial industrial loads as contributing to revenue stability.

### A unique business model, with day-to-day operations outsourced under a contract that expires in 2025, introduces credit risk

LIPA outsources the management of its operations to a for-profit, investor-owned utility. PSEGLI manages day-to-day operations under an operations-and-service agreement that went into effect in 2014 and expires Dec. 31, 2025. LIPA's responsibilities include policymaking, planning and oversight, rate setting, and financing responsibilities for the transmission and distribution system.

Following Superstorm Sandy (2012) and Tropical Storm Isaias (2020), the respective private contractors operating the transmission-and-distribution systems for LIPA were unable to restore service within a timeframe acceptable to the authority. As part of its response to Isaias' protracted outages, LIPA amended and restated its contract with system operator PSEGLI to impose higher performance standards, including more substantial financial penalties for substandard performance. PSEGLI met less than 70% of the performance metrics the last two years, resulting in LIPA's withholding a portion of PSEGLI's compensation.

### **A primarily outsourced, flexible power supply**

LIPA's power supply comes from its 18% ownership stake (229 megawatts, or MW) in Nine Mile Point Nuclear Unit 2 (NMP2); a power supply agreement with "Genco," a subsidiary of investor-owned National Grid (approximately 3,500 MW); and purchased power contracts (approximately 3,200 MW, including transmission intertie capacity) with on- and off-island generators.

NMP2, whose operating license expires in 2046, provides about 10% of LIPA's retail energy requirements. Contractual agreements with National Grid and other energy providers, as well as economy market purchases, serve all needs beyond NMP2. We note that the National Grid contract allows LIPA to purchase energy from sources other than National Grid if those sources have lower costs; we believe that this clause will grow in importance as LIPA seeks to comply with the CLCPA. Although the cost of reserving National Grid capacity does not abate when LIPA purchases power from others, LIPA can direct National Grid to remove generation and related capacity charges from the power supply agreement. National Grid provided 27% of LIPA's 2024 power supply. The power supply agreement with National Grid expires in April 2028.

Underwater transmission cables provide access to the PJM and New England independent system operator markets, helping reduce LIPA's exposure to National Grid's high production costs.

### **Decarbonization goals could pressure rates, but cost recovery mechanisms should mitigate financial risk**

In June 2019, New York State enacted the CLCPA, directing the state's utilities, including LIPA, to source 70% of their electricity from renewable resources by 2030 and 100% from carbon-free resources by 2040. We understand that the New York State Energy Research and Development Authority undertakes the offshore wind and energy storage components of the state's decarbonization plan on behalf of the state's utilities, with LIPA bearing 12.5% of the cost.

We view the state's decarbonization plan as aggressive in scale and proposed timing. Moreover, achieving these goals will require substantial investment in transmission, and transmission and offshore wind projects have historically faced significant opposition, resulting in project delays and/or cancellation. We note, however, that the costs of complying with the CLCPA will be recovered through LIPA's power supply charge and will not be subject to 2.5% revenue increase limitation, although costs with complying with decarbonization goals would likely impose rate pressure.

In fiscal 2024, renewable and other carbon-free resources accounted for about 20% of LIPA's power supply. We expect this percentage to materially increase by 2027 as the Sunrise Wind Project comes on line. However, management expects no additional offshore wind projects to come on line until the 2030s, complicating CLCPA's 2030 goal.

## Long Island Power Authority, New York--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2024	2023	2022
<b>Operational metrics</b>			
Electric customer accounts	1,161,795	1,155,243	1,151,583
% of electric retail revenue from residential customers	54	54	53
Top 10 electric customers' revenues as % of total electric operating revenue	6	6	6
Service area median household effective buying income as % of U.S.	N.A.	147	146
Weighted average retail electric rate as % of state	N.A.	103	112
<b>Financial metrics</b>			
Gross revenue (\$000s)	3,808,419	3,357,231	3,988,862
Total operating expenses less depreciation and amortization (\$000s)	3,180,370	2,903,300	3,521,796
Debt service (\$000s)	287,742	245,467	266,834
Debt service coverage (x)	2.2	1.8	1.8
Fixed-charge coverage (x)	1.4	1.2	1.2
Total available liquidity (\$000s)*	1,630,868	1,529,423	1,399,890
Days' liquidity	187	192	145
Total on-balance-sheet debt (\$000s)	7,641,803	7,776,779	7,571,605
Debt to capitalization (%)	88	90	92

\*Includes available committed credit line balances, where applicable. Debt service coverage--Revenue minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

### Ratings List

#### New Issue Ratings

US\$251.47 mil elec sys gen rev bnds (fxd rate mandatory tender bnds) ser 2025B dtd 08/29/2025 due 09/01/2050

Long Term Rating A/Stable

US\$515.185 mil elec sys gen rev bnds ser 2025A dtd 08/29/2025 due 09/01/2055

Long Term Rating A/Stable

#### Ratings Affirmed

#### Public Power

Long Island Pwr Auth, NY Retail Electric System A/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have

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