

FITCH RATES LONG ISLAND POWER AUTHORITY SERIES 2016A/B ELECTRIC SYSTEM GEN REVS 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-24 August 2016: Fitch Ratings has assigned an 'A-' rating to the Long Island Power Authority's (LIPA) issuance of the following electric system general revenue bonds:

- \$175 million, series 2016A (MMD FRN Rate);
- \$414 million, series 2016B, fixed rate.

The series 2016A bonds are expected to be privately placed the week of Aug. 29, and proceeds will be used to repay the authority's outstanding series 2012C variable rate bonds. The series 2016B bonds are expected to be sold in September, and proceeds will be used primarily to fund capital improvements and refund certain fixed rate bonds.

Fitch has also affirmed the 'A-' ratings on the following LIPA debt and commercial paper bank notes:

- \$4 billion, senior lien electric system revenue and refunding bonds;
- implied electric system revenue subordinate obligations;
- \$200 million series 2014 CP-1A (federally taxable) and 1B;
- \$100 million series 2014 CP-2A (federally taxable) and 2B.

The Rating Outlook is Stable.

SECURITY

The electric system general revenue bonds are senior lien obligations of LIPA secured by the net revenues of the electric system, after payment of operating and maintenance expenses. LIPA's subordinate lien general revenue obligations are also secured by the net revenues of the electric system, but are subordinate to payments on LIPA's outstanding senior lien electric revenue bonds and floating rate notes.

KEY RATING DRIVERS

SOLID UTILITY FUNDAMENTALS: LIPA is one of the nation's largest municipal electric distribution systems, serving 1.1 million retail customers. The authority benefits from sound utility fundamentals, including 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.

BUSINESS MODEL TRANSITION: The 2013 LIPA Reform Act, enacted in response to operating challenges following Superstorm Sandy, broadened the responsibilities of the utility's system operator (PSEGLI) and expanded the state's (Department of Public Service [DPS]) regulatory oversight of LIPA. Fitch views many of the legislated provisions as supportive of credit quality. However, added regulatory oversight could affect LIPA's financial and rate flexibility over time.

CONSTRUCTIVE REGULATORY RECOMMENDATIONS: The constructive recommendations submitted by the DPS following its initial review of LIPA's three-year rate plan, and adopted by

the LIPA board, support LIPA's Stable Outlook. The authority implemented the first phase of a three-year rate increase on Jan. 1, 2016.

RATE PRESSURES PERSIST: Despite electric rates that have become more competitive regionally, political and consumer rate pressures persist as LIPA's average residential revenue per kilowatt hour (kwh) remains among the highest in the nation at approximately 19.4 cents/kwh.

HIGH DEBT LEVELS: LIPA's debt levels remain high, totaling \$10.2 billion at Dec. 31, 2015 including capital lease and securitization obligations, or \$9,337 per retail customer, well above the peer utility median of \$3,318. Although Fitch recognizes the benefits of the separately secured \$4.1 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 to less than 64%, which should moderate future borrowings

SOUND LIQUIDITY: LIPA's liquidity was solid at 103 days of operating cash, and 202 days including available short-term notes and external bank facility at Dec. 31, 2015. Weaker metrics reported in recent years were affected by significant storm costs, but federal reimbursement of roughly 90% of the costs incurred is now complete.

RATING SENSITIVITIES

IMPROVED OPERATING STABILITY: Evidence of improved operating stability and financial performance at the Long Island Power Authority sufficient to offset persistent political and consumer-driven rate pressures could result in consideration of a positive rating action.

CREDIT PROFILE

LIPA owns one of the largest municipal electric distribution systems in the U.S., serving a population of about 3 million people located throughout Nassau and Suffolk counties, and the Rockaways section of New York City. The service area economy continues to exhibit well above average wealth and income levels. Unemployment in Nassau and Suffolk Counties (general obligations debt rated 'A'/Outlook Stable and 'A-'/Outlook Stable, respectively) is below that of the state and nation.

Operations and management services related to the LIPA transmission and distribution system, which had been provided by a subsidiary of National Grid plc, shifted to PSEG-LI, a subsidiary of Public Service Enterprise Group ([PSEG] Issuer Default Rating 'BBB+'/Stable) as of Jan. 1, 2014, for a 12-year term, pursuant to the operating services agreement (OSA). PSEG is paid a management fee and can earn performance incentives.

Effective Jan. 1, 2015, fuel management services shifted to an affiliate of PSEG - PSEG Energy Resources and Trade, LLC. The power supply and fuel management services are also provided pursuant to the OSA, which expires Dec. 31, 2025.

The power supply agreement remains with National Grid, plc, to provide capacity and energy from its oil and gas-fired generating units on Long Island. This agreement is in place through May 2028.

NEW ISSUE DETAILS

The series 2016A proceeds will be used to refinance LIPA's outstanding series 2012C variable rate demand bonds and should not expose LIPA or its bondholders to any meaningful new risks. The series 2016A bonds will initially bear interest at a variable rate based on prevailing AAA

Municipal Market Data General Obligation Yield Curve plus an applicable spread and will have a final maturity of May 1, 2033

In addition to the bond issuance, LIPA is also expected to enter into a five year basis swap that will effectively convert the cost of the series 2016A bonds to 69.4% of one-month LIBOR plus an applicable spread. There is an additional requirement at the end of the basis swap agreement for LIPA to pay the counterparty 100% of any decrease in the market value of the series 2016A bond. However LIPA reserves the right to call or remarket the bond after five years, in which case the value of the basis swap would be \$0.

The authority will continue to bear the interest rate risk associated with the series 2016A debt, but LIPA's overall variable rate exposure remained reasonable at 3.7% of total debt at year end 2015.

The series 2016 B bonds will bear interest at a fixed rate and have an expected final maturity of May 1, 2046.

For additional information on LIPA's long term ratings see the recent full rating report dated Feb. 18, 2016. The report and press release are available at 'www.fitchratings.com'.

Contact:

Primary Analyst
Dennis Pidherny
Managing Director
+1-212-908-0738
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Lina Santoro
Analytical Consultant
+1 212 908-0522

Committee Chairperson
Kathy Masterson
Senior Director
+1-512 215-3730

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

<https://www.fitchratings.com/site/re/750012>

U.S. Public Power Rating Criteria (pub. 18 May 2015)

<https://www.fitchratings.com/site/re/864007>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE

TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001