MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns an A2 rating to Long Island Power Authority's (NY) Series 2024 General Revenue Bonds

29 Jul 2024

New York, July 29, 2024 -- Moody's Ratings (Moody's) assigned an A2 rating to Long Island Power Authority's (LIPA or the Authority) (NY) approximately $1.02 billion Electric System General Revenue Bonds, Series 2024 consisting of $737 million Electric System General Revenue Bonds, Series 2024A and $285 million Electric System General Revenue Bonds, Series 2024B (Fixed Rate Mandatory Tender Bonds). 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 and a declining debt ratio even after considering investments made by LIPA for its transmission and distribution system. The rating, however, is balanced by LIPA's highly leveraged balance sheet, financial metrics that are somewhat weak for the mid-A rating category and lingering concerns around the utility's ability to restore service after meaningful storms owing to challenges that emerged after previous storms.

LIPA will continue outsourcing the operation of the transmission and distribution system after the expiration of an existing contractual arrangement at year-end 2025. This decision, which follows studies and discussions contemplating LIPA transitioning itself towards a public power model which manages its own workforce, is viewed a neutral to LIPA's credit profile.

LIPA's electric system operation is generally completed by approximately 2,600 personnel within an entity called ServCo, a wholly-owned LIPA subsidiary, that is managed by employees of PSEG Long Island, a wholly-owned subsidiary of Public Service Enterprise Group Incorporated (PSEG: Baa2, stable). LIPA pays PSEG Long Island a management fee for its services, and all of the operating and maintenance costs, including for ServCo employees.

LIPA issued a fully competitive Request for Proposals for service providers beginning January 2026. Its schedule allows for a transition to the next service provider by December 2025, if a bidder other than PSEG Long Island is selected.

RATING OUTLOOK

The stable outlook reflects LIPA's strong liquidity profile that is expected to continue, a diverse and above average service territory, and fixed charge coverage ratio that is excepted to remain in the 1.20-1.30 range. LIPA's fixed obligation charge coverage and debt ratio as of December 31, 2023 were 1.24 and 87%, respectively.

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.

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, or a substantial decline in LIPA's liquidity profile could lead to consideration of 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 2024 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 2024A and 2024B offerings will be used to fund certain system improvements to LIPA's transmission and distribution system and to refund certain outstanding 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/rmc-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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