

Rating Action: Moody's upgrades LIPA (NY); outlook is stable

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New York, August 12, 2016 -- Moody's Investors Service today upgraded the senior lien revenue bonds of the Long Island Power Authority (LIPA or the Authority), NY to A3 from Baa1 and the subordinated lien revenue bonds to Baa1 from Baa2. The rating outlook is stable.

Summary Rating Rationale

The upgrades reflect the implementation of enhancements to LIPA's cost recovery mechanisms that result in a more stable and predictable cash flow and a more resilient liquidity profile. Other considerations that factored into the one-notch upgrade include improvements in LIPA's operating performance, better customer satisfaction levels, more transparent and credit supportive regulatory relationships and an expectation for better financial performance on a sustained basis. A primary catalyst for LIPA's improved credit profile was the January 1, 2016 implementation of a three-year rate plan, which called for modest electric distribution rate increases and automatic recovery mechanisms that provide protection against certain external factors. Credit supportive automatic recovery mechanisms approved and implemented include a revenue decoupling mechanism (RDM) and a delivery service adjustment (DSA). Collectively, these mechanisms provide automatic cost recovery should certain external events occur, including revenue variations that result from changes in economic conditions, weather or energy efficiency programs as well as higher-than-budgeted storm costs. The upgrade also recognizes LIPA's receipt of grant funds from FEMA, which along with internal generated cash flow sources and incremental debt will fund a capital investment program focused on storm hardening and enhancing system reliability. Because of the existence of the FEMA funds, currently held in a restricted cash account, the debt ratio is expected to continue its declining trend even while incremental debt is incurred to fund the capital investment program.

Rating Outlook

The stable outlook reflects an expectation that LIPA's cost recovery mechanism will continue to provide a more stable and predictable cash flow profile.

Factors that Could Lead to an Upgrade

The rating is well-positioned at the lower end of the A category and is not expected to move upward in the foreseeable future.

Longer term, a sustainable improvement in credit metrics could give rise to a higher rating. For example, consideration of a higher rating could occur if the fixed obligation charge coverage were to reach 1.50 times while its debt ratio declined below 100%, both on a sustained basis.

Establishment of a meaningful debt service reserve for the revenue bonds.

Factors that Could Lead to a Downgrade

Unexpected deterioration in financial metrics, including fixed obligation charge coverage declining to below 1.1 times and total days cash on hand declining to below 90 days on an ongoing basis.

Obligor 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) as a wholly owned subsidiary which does business as LIPA. LIPA's assets currently consist of a transmission and distribution system that is used to serve approximately 1.1 million customers in an approximately 1,230 square mile service territory (as well as an 18% (234 MW) interest in the Nine Mile Point Unit 2 nuclear facility. Scorecard Factors and Other Considerations The grid indicated rating of A3 is the same as the assigned rating of A3. Note: The grid is a reference tool that can be used to approximate credit profiles in the U.S. Public Power Electric Utility Industry in most cases. However, the grid is a summary

that does not include every rating consideration. Please see U.S. Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology for more information about the limitations inherent to grids.

Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

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