STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

New York State Power Authority; CP; Wholesale Electric

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Summary:

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Credit Profile		
New York St Pwr Auth adj rate		
Long Term Rating	AA/A-1/Stable	Upgraded
New York St Pwr Auth taxable comm ppr		
Short Term Rating	A-1+	Upgraded
New York St Pwr Auth tax-ex comm ppr 2		
Short Term Rating	A-1+	Upgraded
New York St Pwr Auth CP		
Short Term Rating	A-1+	Upgraded

Rationale

Standard & Poor's Ratings Services has raised its long-term rating on the New York State Power Authority's (NYPA) $1.1 billion of senior debt to 'AA' from 'AA-'. At the same time, Standard & Poor's raised its short-term rating on the authority's subordinate lien series 1-3 commercial paper (CP) and its series 1 extendible municipal CP (EMCP) notes to 'A-1+' from 'A-1'. The CP and EMCP balance outstanding as of Dec. 31, 2013 was $554 million. Standard & Poor's also raised its ratings on NYPA's $106 million senior-lien 1985 adjustable-rate tender notes to 'AA/A-1' from 'AA-/A-1'. The outlook is stable.

The upgrade reflects our assessment of the following factors:

- A track record of consistently strong 2009-2013 fixed charge coverage of at least 2.3x after adjustments for recurring transfer payments to New York State and capacity and tolling payments to other generation owners;
- A very favorable debt-to-capitalization ratio of 31% in 2013, down from 42% in 2009; and
- The utility's forecast that its plans to use cash balances to fund portions of its capital program, which together with the amortization of portions of existing debt, will yield stable debt balances of about $1.7 billion through 2017, as it pursues a large $1.96 billion 2014-2017 capital program.

The authority pays debt service from the net revenues of its electric system.

The 'AA' rating reflects our view of the following strengths:

- NYPA exhibited strong debt service coverage of direct debt of at least 3x since fiscal 2008 (year ended Dec. 31) and at least 5.5x in 2012 and 2013. We treat recurring transfers to the state's economic development programs as operating expenses. We also treat as debt service a portion of tolling payments to other generation owners, rather than treat it as an operating expense, because we view these payments as funding the developer's recovery of investments in generating assets. Although these adjustments dilute coverage, our fixed charge coverage was nevertheless at least 2.3x since 2010 and at least 3.0x in 2012 and 2013.

- The utility's debt burden is low, with a debt-to-capitalization ratio of 31% at Dec. 31, 2013, down substantially from 42% in 2009 and 55% in 2005. The favorable ratio partially reflects the authority's debt reduction achievements and its reliance on other energy suppliers' generation resources to serve substantial portions of its customers' energy needs.
- NYPA benefits from autonomous rate-setting authority and is not subject to New York State Public Service Commission oversight. Nevertheless, we believe the state places meaningful financial demands on the utility that could erode financial strength and flexibility.
- Unrestricted cash and investments of $1.3 billion at year-end 2013 represented more than six months' operating expenses.
- NYPA serves a broad and economically diverse service territory.
- Strong demand for the authority's low cost hydroelectric generation output accounts for more than half of its energy sales, but only about 20% of revenues. Nevertheless, hydroelectric resources are important contributors to NYPA's financial margins.
- The authority benefits from its Southeastern New York customers' election to assume responsibility for variability in power supply costs the utility previously bore.
- Firm transmission rights provide the utility with a financially valuable corridor for moving power generated upstate to New York City.

We believe the utility faces the following exposures:

- As a state authority, NYPA is exposed to substantial political influences, including pressure to contribute to and fund state economic development programs, which we view as having the potential to erode its financial strength. For example, the authority has been charged with making loans to further the state's energy efficiency goals. This nearly $300 million program and other loan programs expose the utility to the creditworthiness of the programs' borrowers.
- NYPA has a history of substantial, but declining transfers of surpluses to the state. Transfers of $65 million in 2013 represented 2% of operating revenues, which was significantly lower than 2009's $119 million and 2010's $147 million, or 4.6% and 5.7% of those years' operating revenues, respectively.
- The authority lent $318 million to the state in 2009 to help it address budget deficits. New York pledged to repay this loan in two installments: $103 million in 2014 and $215 million in 2017. Loan repayment hinges on legislative appropriations and the loans do not constitute state debt. The state did not repay the 2014 maturity in full. Rather, NYPA expects the state to repay 2014's maturity in five annual installments. It received the first Oct. 1. We view the state's substantial transfers and the loan as placing significant demands on liquidity.
- NYPA projects nearly $2 billion of 2014-2017 capital spending. However, it projects stable debt balances of close to $1.7 billion as it funds capital investments. The utility projects stable debt balances based on the amortization of existing debt and the use of balance sheet cash and cash from operations to finance one-half to two-thirds of the projects' costs.
- Sales of hydroelectric facilities' output are important contributors to operating margins and their contributions are susceptible to compromise during periods of drought or low market electricity prices, which could erode financial performance.
- Although customers of the utility's hydroelectric resources pay very low rates, they have historically resisted rate adjustments, which could erode financial flexibility. However, the authority is implementing 18% rate increases for these customers covering 2011-2014. The increases are raising rates to $13 per megawatt-hour from $11.
- About 40% of debt obligations are variable-rate. NYPA mitigates this risk through swaps and caps leaving unhedged about 30% of variable rate debt as a percent of total debt. We believe the ratings on the swap counterparties and the utility provide considerable headroom relative to the termination triggers in the swap documents.

NYPA is a corporate municipal instrumentality and political subdivision of New York State. It primarily sells wholesale electricity to municipal utilities, governmental entities, large industrial and commercial customers, investor-owned utilities, and utilities in neighboring states. Its contracts tend to be medium-to-long-term.

Unlike many other utilities, the authority does not socialize its power supply costs across all customers. Rather, customers pay charges tied to the resources that supply their electricity needs. The utility's low-cost, hydroelectric portfolio mostly benefits its upstate customers. It also sells some of the hydroelectric output to industrial customers in New York State and municipalities within and outside the state. The industrial sales are made to support state economic development programs and the sales to municipalities to meet Federal Energy Regulatory Commission license obligations of the hydroelectric facilities. The authority principally serves its downstate governmental customers' needs with owned and contracted thermal resources that it supplements with market purchases.

NYPA's upstate hydroelectric facilities continue to supply about 50% of the energy it sells. By comparison, the hydroelectric energy's consumers account for only about 20% of energy sales revenues. At the same time, downstate customers accounted for nearly 40% of energy sales and about 60% of revenues. Margins on the low-cost hydroelectric sales and transmission service are substantially greater than those from sales to downstate governmental bodies. Transmission services are also important to the utility's revenue stream.

At year-end 2013, the authority had nearly $1.7 billion in debt, which was 26% lower than 2007's peak debt of $2.3 billion. Management reports that using cash for half to two-thirds of capital spending, together with existing debt's amortization, should lead to stable debt balances.

Debt service coverage of all senior and subordinate capital market obligations has been at least 3x since fiscal 2009 and was 5.5x in 2012 and 2013. Coverage ratios benefit from Entergy Corp.'s annual installment payments for its $967 million purchase of NYPA's interests in the Indian Point 3 and James A. Fitzpatrick nuclear generating stations in 2000. The authority records Entergy's payments of about $72 million per year on its income statement as other income. The payments will continue through 2015. The utility plans to use rate increases to offset the loss of the Entergy payments.

Standard & Poor's analysis also focuses on fixed-charge coverage. We view recurring transfer payments to the state and its economic development programs as operating expenses. In addition, we view tolling payments associated with the 500 MW Astoria Energy LLC combined cycle plant that was added in 2011 as funding the developer's recovery of its investment in the plant. Consequently, we calculate coverage ratios that reflect our view that tolling payments have debt service characteristics rather than operating expense attributes. With these adjustments coverage was about 3x in 2012 and 2013. Applying our adjustments to the authority's financial projections indicates it could achieve all-in fixed charge debt service coverage of at least 2.7x through 2017.

NYPA must maintain liquidity facilities sufficient to cover the CP's principal so long as it is outstanding. The note resolution authorizes up to $1.2 billion of series 1-3 CP, but the revolving credit agreement's $550 million commitment caps the amount of CP the authority can issue. The revolving credit agreement does not cover NYPA's $60 million of EMCP.

The banks' liquidity support obligations could terminate before expiration if there default events tied to the utility's creditworthiness have occurred. Consequently, the short-term CP rating reflects our view of NYPA's capacity to service short-term obligations, rather than the banks' credit quality. Events that would lead to the liquidity facility's automatic termination include an authority insolvency proceeding and three rating agencies' assignment of speculative-grade ratings to the utility's parity subordinate-lien obligations. The revolving credit agreement expires in January 2015.

Outlook

The stable outlook reflects our view of the utility's capacity to perpetuate its consistent record of strong debt service coverage and liquidity. Existing debt's amortization and plans to use cash to fund meaningful portions of the capital program should maintain stable debt balances and improve leverage as the substantial capital program proceeds. The level of transfer payments to state programs, and the state's timely repayment of NYPA's loans to the state will be important to sustaining credit quality. We do not plan to raise or lower the rating during our two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Electric Utility Ratings, June 15, 2007

Ratings Detail (As Of November 3, 2014)		
New York St Pwr Auth wholesale elec		
Long Term Rating	AA/Stable	Upgraded
New York St Pwr Auth wholesale elec (MBIA) BHAC)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York St Pwr Auth rev bnds		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York St Pwr Auth taxable rev bnds ser 2003A dtd 12/18/2003 due 11/15/2008-2013 2018 2023 2028 2033		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York St Pwr Auth wholesale elec		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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