MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to Lubbock, TX Electric Enterprise's Series 2022 revenue bonds; outlook is stable

27 Jul 2022

New York, July 27, 2022 -- Moody's Investors Service has assigned an A1 rating to Lubbock (City of), TX Electric Enterprise's $60.5 million of Electric Light and Power System Revenue Bonds, Series 2022. Moody's maintains the previously assigned A1 rating on the system's previously rated revenue bonds. The outlook is stable. Including the current offering, the system has $439 million of parity debt outstanding.

RATINGS RATIONALE

The A1 rating reflects the system's large service area and stable customer base supported by the institutional presence of Texas Tech University (Texas Tech University System, TX; Aa1 stable). The A1 rating also reflects the system's strong management and planning practices, demonstrated by the successful transition of 70% of its customer load to the Electric Reliability Council of Texas, Inc. (ERCOT; A1 negative) market on May 30, 2021 and timely regulatory approval of transmission cost of service (TCOS) revenue by the Public Service Commission of Texas (PUCT). This new revenue stream, coupled with lower purchased power costs should keep debt service coverage steady. Liquidity declined as expected in 2021 after a hold-harmless payment to the Southwestern Public Service Company (SPS; Baa2 stable), but will remain stable relative to revenue over the long term as the enterprise continues to transition to a transmission only operation. The A1 rating also incorporates the ongoing execution risk associated with the full integration of system's customer load to ERCOT in May 2023. Leverage has increased significantly, but is manageable given the stable TCOS revenue stream supporting the new debt. Despite a planned issuance in 2023 to finance an early termination payment with SPS, the debt profile is expected to remain on par with peers. The A1 rating additionally reflects the adequate to moderately weak legal provisions, which include a sum sufficient rate covenant, additional bonds test (ABT) of 1.10 times maximum annual debt service, and debt service reserve equal to average annual debt service.

RATING OUTLOOK

The stable outlook reflects our expectation that the system's strong management and planning practices will provide for a successful and timely transition of the system's remaining customer load to ERCOT. The stable outlook also reflects our expectation that management will continue to secure timely regulatory approval of TCOS rate adjustments to ensure debt service coverage and liquidity metrics remain in line with the peer group.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Successful completion of transition to distribution only

- Materially stronger debt service coverage ratios and liquidity

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Mismanagement of transitioning the remaining customer load to ERCOT, resulting in elevated costs that are not fully recovered on a timely basis weakening the system's financial profile

- Significant additional borrowing that outpaces operating revenue growth, resulting in higher leverage and weaker debt service coverage ratio

- Failure to secure PUCT approval of rates that provide Lubbock with a debt service coverage ratio that is consistent with the current peer group

LEGAL SECURITY

The bonds are secured by a first lien pledge on the net revenues of the system.

USE OF PROCEEDS

Bond proceeds will be used to fund various upgrades and improvements to the system's infrastructure, primarily driven by the ongoing transition to ERCOT.

PROFILE

Lubbock (City of), TX Electric Enterprise was established in 1916 and primarily provides electric transmission and distribution to customers within the City of Lubbock (Aa2 stable). The system successfully integrated 70% of its customer load to ERCOT on May 30, 2021 and will fully integrate into the ERCOT market by June 1, 2023. The system's service area is coterminous with the City of Lubbock. As of 2021, the city's estimated population was 267,000.

METHODOLOGY

The principal methodology used in this rating was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at https://ratings.moodys.com/api/rmc-documents/386721 . 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the

Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Alexander Rawlings
Lead Analyst
REGIONAL_NE
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Thomas Jacobs
Additional Contact
REGIONAL_NE
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653