MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Lubbock (City of), TX Electric Enterprise

New Issue: Moody's assigns A1 to Lubbock, TX's, $7.7M Electric Light & Power System Revenue Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned an A1 rating to the City of Lubbock, TX's $7.7 million Electric Light and Power System Revenue Bonds, Series 2016. Concurrently, Moody's affirms the A1 rating on the system's $80.2 million of outstanding parity debt. The outlook remains stable.

The A1 rating reflects the system's large customer base and institutional stability of Texas Tech University (Texas Tech University System; Aa1 stable), which have produced a relatively steady base demand profile. This stability is balanced against the system's transition to the Electric Reliability Council of Texas, Inc. (ERCOT; Aa3 stable) to secure its long term power supply needs as the system's current total requirements contract with Xcel Energy Inc. (A3 stable) expires in 2019. The A1 rating incorporates management's strong planning practices and proven history of frequent rate adjustments to ensure financial metrics are maintained, the system's below average residential income levels given a large student population and small debt profile which favorably positions the system to accommodate additional borrowing to rebuild and expand its transmission and distribution infrastructure to facilitate integration with the ERCOT grid. The A1 rating also reflects the adequate legal provisions, including a sum sufficient rate covenant.

Credit Strengths

- Large customer base benefiting from the institutional stability of Texas Tech University
- Strong, forward looking management
- Stable financial metrics
- Manageable debt profile
- Below average rates compared to the statewide average

Credit Challenges

- Execution risk as the system transitions from a total requirements contract with Xcel Energy to ERCOT in 2019
- Additional near-term borrowing to upgrade existing transmission, distribution infrastructure

Rating Outlook

The stable outlook reflects our expectation the system's strong management and planning practices will substantially reduce the execution risk of its transition to ERCOT upon expiration of the total requirements contract on May 31, 2019. The stable outlook reflects our expectation management will continuing to adjust rates to ensure adequate financial metrics are maintained as additional debt is incurred.

Factors that Could Lead to an Upgrade

» Continued improvement of the system's financial profile

» Successful execution of integration with ERCOT

» Notable expansion of the customer base

Factors that Could Lead to a Downgrade

» Mismanagement of ERCOT transition, resulting in elevated costs that are not fully recovered on a timely basis to ensure stability of the system's financial profile

» Significant increase in debt profile, resulting in pressured financial metrics

» Increased exposure to power supply markets

Key Indicators

Exhibit 1

Lubbock, TX Electric Enterprise					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	12 years				
System Size - O&M (in $000s)	176,975				
Service Area Wealth: MFI % of US median	86.5%				
Legal Provisions					
Rate Covenant (x)	1.00				
Debt Service Reserve Requirement	DSRF funded at less than 3-prong test OR springing DSRF				
Financial Strength					
	2011	2012	2013	2014	2015
Operating Revenue ($000)	201,459	189,209	212,656	227,245	221,215
O&M ($000)	162,825	154,396	169,616	186,021	176,975
Long-Term Debt ($000)	135,585	124,875	121,505	77,760	80,225
Annual Debt Service Coverage (x)	0.95	1.42	1.39	1.63	1.67
Cash on Hand	158 days	135 days	113 days	123 days	134 days
Debt to Operating Revenues (x)	0.7x	0.7x	0.6x	0.3x	0.4x

Annual debt service coverage ratios include debt service on parity revenue debt and GOLT bonds issued by the City of Lubbock, but supported by the system.
Source: Moody's Investors Service

Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

Detailed Rating Considerations

Service Area and System Characteristics: Stable Service Area Benefits from Institutional Presence of Texas Tech University

Since the acquisition of Southwestern Public Service Company's (SPS; Baa1 stable) transmission and distribution infrastructure in October 2010, the system provides electric transmission and distribution to roughly 80% of the City of Lubbock (Aa2 stable). The remainder of the city's boundary is singly certified to the South Plains Electric Cooperative (SPEC). As of fiscal 2015, the system reported 88,954 residential accounts, 13,453 commercial and 1,068 municipal and/or school accounts. The customer base benefits from the additional stability and institutional presence of Texas Tech University. The university enrolled 31,619 students at the Lubbock campus in fall 2014, which accounts for 13.6% of the city's 2013 population of 233,162 residents. As expected given the large student population the demographic profile of the service area is below average, with median family income equal to 86.5% of the US. Customer concentration is moderate as the 10 largest users accounted for 20% of total megawatt hours (MWHs) billed and 15.4% of the 2015 operating revenues. However, Texas Tech University is the system's largest customer, which provides additional stability to the customer base. The two largest users accounted for 9.3% of the total MWHs billed and 7% of 2015 operating revenues.

The system plans to become a member of the Electric Reliability Council of Texas, Inc. (ERCOT) to secure its long term power supply needs once the current total requirements contract with Xcel Energy Inc. (the parent of SPS) and member of the Southwest Power Pool (SPP) market expires on May 31, 2019. The transition will require considerable capital spending over the next six years, about $62 million annually from 2017 to 2019, to upgrade or rebuild the existing distribution and transmission infrastructure. The system anticipates having 626 megawatts (MW) of total demand in 2019, of which 170 MW will be met via a partial requirements contract with SPS and 100 MW from Elk City Wind Energy. This leaves roughly 456 MW of unmet demand, which is expected to be met through staggered power purchase agreements (PPAs) from ERCOT, with varying durations of three, five and 10 years, as well as 114 MW from self-generation assets. This additional flexibility of staggering and rolling off a portion of the PPAs will serve as a hedging instrument to mitigate volatility in energy prices, a feature that ERCOT facilitates better than SPP. Given Lubbock's location, there is a significant variation in prices north and south of its location. Lubbock could overcome its transmission constraints by participating in ERCOT. While energy prices are lower in ERCOT compared to SPP, due to excess supply from wind assets, it is uncertain whether this pricing advantage will hold in the longer term. However, currently there is no capacity market in ERCOT, and therefore Lubbock would not be required to pay capacity charges to participate in ERCOT as opposed to the SPP market.

We expect the system's strong management and planning practices along with coordination with the Public Utility Commission of Texas (PUC) and ERCOT will mitigate execution risk of this transition, which requires approval by the PUC and ERCOT. In late summer or fall 2016 Lubbock expects PUC to communicate the names of potential transmission providers for developing the transmission and distribution infrastructure necessary to integrate the system with ERCOT. Subsequently, Lubbock could apply for the Certificate of Convenience and Necessity (CCN) – approval or denial of which will be provided by PUC within 12 months. Once the CCN is procured, construction and financing can be initiated within 18 months. Although, this could be a tight timeline, the system is in discussion with a power marketing company to procure bridge contracts in case the integration with the ERCOT grid is not implemented in time for the 2019 contract expiration with Xcel.

Debt Service Coverage and Liquidity: Strong Fiscal Management and Healthy Financial Metrics

We expect the system will continue to adjust rates as necessary to maintain its satisfactory financial position throughout the next couple of years. The system increased its base rate 5.75% in fiscal years 2015 and 2016, respectively. Fiscal 2015 total operating revenues decreased 2.7% to $221.2 million due to decreased off-system sales from the expiration of two unit contingent agreements with SPS. However, related costs to operate the units decreased as well, contributing to a 5% decline in total operating and maintenance (O&M) for the year. Fiscal 2015 adjusted net revenues (after transfers and payments in-lieu-of-taxes) provided 1.67 times coverage of total annual debt service, which is consistent with the rating and includes revenue bonds and general obligation limited tax bonds ultimately secured by the city's GOLT pledge, but funded various system improvements. Maximum annual debt service coverage is lower, but adequate, at 1.47 times and occurs in fiscal 2017. MADS coverage excludes additional revenues from a 5.75% base rate increase implemented October 1, 2015. Fiscal 2016 projected net revenues are roughly $30 million and provide 1.54 times coverage of total debt service expenditures.

Rates are comprised of several components, including a fuel cost recovery factor, a customer charge, as well as applicable taxes and fees. Rates are reviewed annually as part of management five-year financial model. Despite frequent adjustments, the system's rates are competitive compared to the statewide average retail rate.

LIQUIDITY

The system's unrestricted cash and investments have increased each year to $64.7 million in fiscal 2015, or 134 days cash on hand compared to 113 days in 2013. The system anticipates cash-funding roughly $12 million of capital expenditures annually over the next five years, funded primarily through a 5.75% annual rate increase. Texas Tech University has claimed a $3.9 million overpayment to the system under a purchase power agreement. Conservatively, management accrued a $1.6 million expense in the fiscal 2015 audited financials related to this dispute. We do not anticipate this issue will have a material impact on the system's liquidity and expect unrestricted cash levels to remain healthy in the near term.

Debt and Legal Covenants: Manageable Debt Profile with Substantial Near Term Capital Needs; Adequate Legal Provisions

The system's debt position is low, with total debt representing 0.6 times fiscal 2015 operating revenues, which includes $38 million of GOLT bonds supported by the system. Repayment of the system's revenue debt begins descending in fiscal 2017 and average annual debt service is $4.7 million (average annual debt service of all debt is $7.3 million). The system's five-year capital improvement plan consists of $267 million of annual capital expenditures from fiscal 2016 to fiscal 2021 ($50 million per year; $38 million debt-funded). Despite plans for additional borrowing, we expect the system's debt profile will remain manageable in the near term. We expect implementation of timely rate adjustments will accommodate increasing annual debt service requirements and ensure the system's financial metrics are maintained.

The bond resolution requires a sum sufficient rate covenant and 1.10 times maximum (1.25 times average) proposed annual debt service additional bonds test. The resolution requires a debt service reserve fund which must be funded at average annual debt service.

DEBT STRUCTURE

The system is not party to any derivative agreements. After the current offering, the system will have $87.9 million of outstanding parity debt. Principal amortization is fast with 82.5% of principal repaid within 10 years. The system's annual debt service requirements decline a considerable $8.5 million from fiscal 2020 to fiscal 2021 and all debt matures in fiscal 2046.

DEBT-RELATED DERIVATIVES

The system is not party to any derivative agreements.

PENSIONS AND OPEB

The system participates in the Texas Municipal Retirement System (TMRS), a multi-employer defined benefit retirement plan sponsored by the State of Texas (Aaa stable). The system contributed $3.1 million to the plan in 2015, or 2% of 2015 O&M expenses, and its pension contributions are manageable.

Management and Governance

The system is governed by a board of nine members, all of whom are appointed by the city council and serve a maximum of three, two-year terms. The board has the full authority and power to govern, manage, and operate the electric enterprise system. The city council approves the system's budget, establishes rates, exercises eminent domain on the system's behalf and authorizes the issuance of debt.

The system's management is strong, characterized by formal financial policies. By ordinance, the system must maintain a general reserve fund equal to the greater of three months gross retail electric revenues. The estimated reserve for fiscal 2016 is $55. 6 million. Also codified by ordinance, the system annually transfers to the city's General Fund an amount equal to 5% of gross revenues generated from electric sales (franchise fee) and an amount equal to 1% of gross revenues generated from electric sales (payment-in-lieu-of-taxes). However, these payments may only occur after all legal covenants in the bond resolution are satisfied.

Legal Security

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

Use of Proceeds

The current offering will fund various upgrades and improvements to the system's electric transmission and distribution infrastructure.

Obligor Profile

Lubbock Power and Light was established in 1916 and is a member of the West Texas Municipal Power Agency (WTMPA). The system provides electric generation, transmission and distribution to the City of Lubbock. As of 2013, citywide population was estimated at 233,162 residents.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

LUBBOCK (CITY OF) TX ELECTRIC ENTERPRISE

Issue	Rating
Electric Light And Power System Revenue Bonds, Series 2016	A1
Rating Type	Underlying LT
Sale Amount	$7,675,000
Expected Sale Date	04/05/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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