

# S&P Global Ratings' Assessment Of Public Power Utilities' Credit Quality



**American Public Power Association**  
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**David Bodek**  
Senior Director and Sector Leader  
Public Power and Electric Cooperative Ratings  
david.bodek@spglobal.com

# Disruption: An Emerging Theme in 2019

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- **Evolving Environmental Regulations**
- **The Emergence of Distributed Generation and Efficiency Technologies**
- **Wildfires and Inverse Condemnation Claims**

# Environmental Regulation

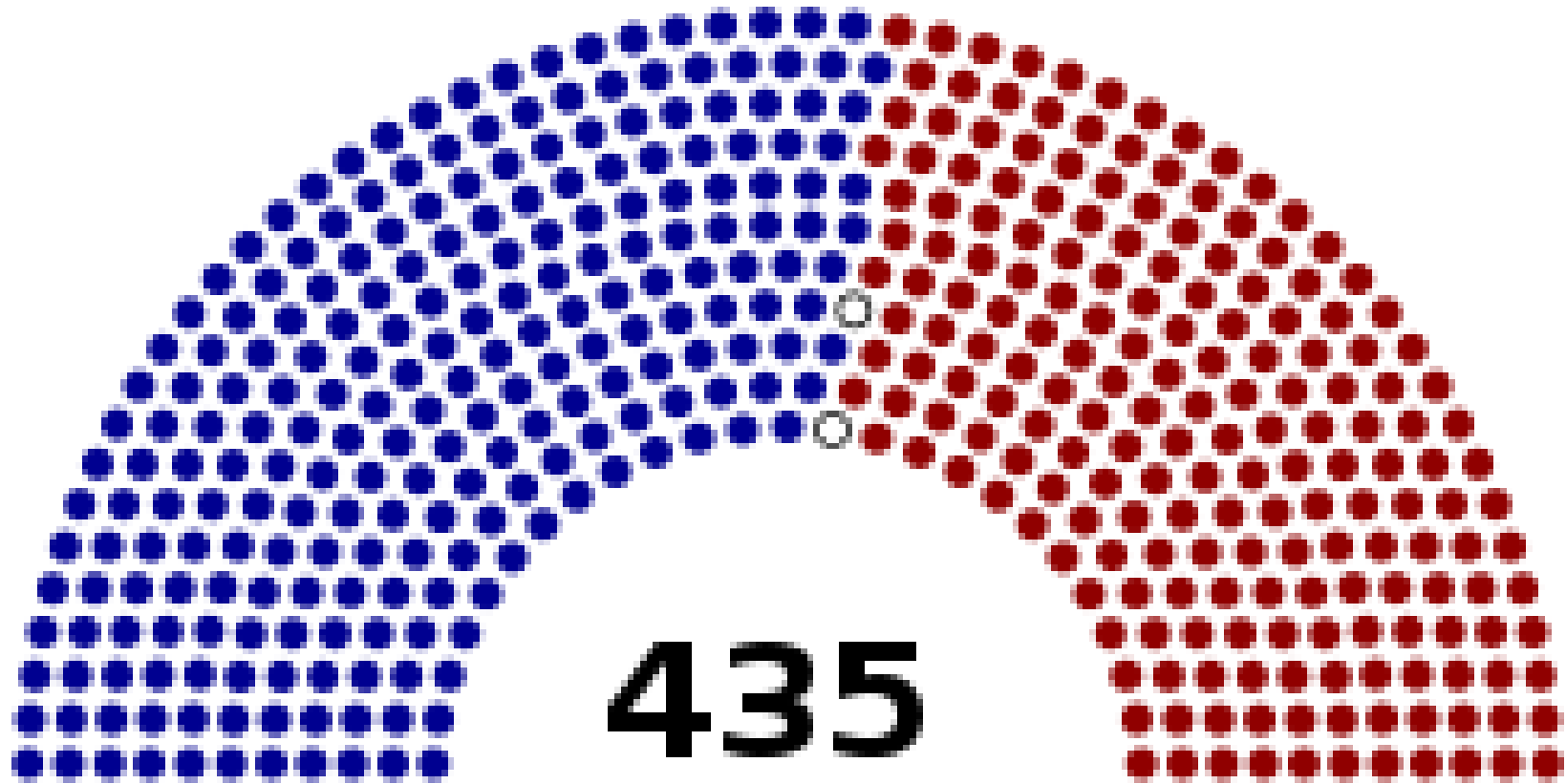
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**The New York Times**

## **84 Environmental Rules Being Rolled Back Under Trump**

President Trump has made eliminating federal regulations a priority. His administration . . . has often targeted environmental rules it sees as burdensome to the fossil fuel industry and other big businesses.

NYT Aug. 29, 2018



# A Growing List Of States Targeting 100% Carbon-Free Electricity Production

<b>California</b>	<b>Colorado</b>	<b>Hawaii</b>
<b>Maine</b>	<b>Minnesota</b>	<b>Nevada</b>
<b>New Jersey</b>	<b>New Mexico</b>	<b>New York</b>
	<b>Washington</b>	

# Chubb Coal Policy

The Chubb logo consists of the word "CHUBB" in white, uppercase, sans-serif font, centered within a dark blue rectangular background that features a subtle grid pattern.

**Utilities.** Chubb will not underwrite new risks for companies that generate more than 30% of their energy production from coal. Chubb will phase out coverage of existing risks that exceed this threshold beginning in 2022, taking into account the viability of alternative energy sources in the impacted region.

# Aligning Aspirational Goals With Technological and Economic Considerations

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# THE WALL STREET JOURNAL.

WSJ Aug. 29, 2018

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## California Lawmakers Vote to Mandate Carbon-Free Electricity Generation

“Goals have to be credible,” [California Governor Jerry] Brown said. “In order for the goal to be credible, **we have to have the ingredients that will actually get us there.**”

. . .

To achieve 100% carbon-free power, Mr. Brown suggested **California needs to increase its ability to store power from unpredictable sources** like wind and solar. . . .”

# LADWP board OKs PPAs for massive solar plus storage project

**PUBLIC  
POWER** DAILY

“The combined solar power and energy storage is priced at 3.3 cents per kilowatt-hour — a record low for this type of contract, city officials and independent experts say, and cheaper than electricity from natural gas,” the Los Angeles Times noted in a Sept. 10 article. . . The development of the Eland Solar and Storage Center is expected to play a key role in helping Los Angeles reach 55% renewable energy by 2025, 80% renewable energy by 2036, and 100% renewable energy by 2045.

# Cascading Outages And Clouds Test Solar Plus Storage On Kauai

“Kauai Island Utility Cooperative (KIUC)’s largest [conventional] generator . . . became inoperable . . . on Monday. Although the energy cooperative restored power for Sunday’s peak, it had to utilize rolling blackouts after that.

“**The lack of sun today was a real challenge**, as we had virtually no production from our large solar facilities . . . On top of that, we have increased demand from residential and commercial rooftop solar customers whose systems aren’t producing.””

## Texas Taxpayers Pay For Political Virtue Signaling With Costly Renewable Energy



“To make [its]100% renewable claim, [Georgetown bought] more electricity than they could use almost any day of the year. The city’s policymakers had to buy far more wind and solar energy because those sources are so unreliable. . . .

The flip side of 100% renewable claim is that **on low demand days with plenty of wind, Georgetown’s contracted wind and solar energy suppliers generate a surplus, selling that power at very low cost** into the larger Texas market.”

# Georgetown, TX (AA- / Stable)

“S&P Global Ratings **lowered to ‘AA-’ from ‘AA’** its . . . rating on the . . . Texas [utility’s] revenue bonds.

. . .

**The rating action reflects our . . . view of the challenges that Georgetown Utility Systems faces with the excess electricity that the utility has under contract, [which is exacerbated by depressed] energy prices in ERCOT.”**

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# Austin, TX (AA / Stable)

## “Renewable Is Do-Able”



“More than 30% of the electricity Austin Energy supplies to its customers is renewable, up from 20% in 2015. And that’s just the beginning. The utility has set ambitious goals for the future — **65% of the power supplied to customers will be renewable in 2027.**”

<https://austinenergy.com/ae/green-power/renewable-energy>

# Austin, TX (AA / Stable)

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Austin Energy “has among the largest . . . renewable energy portfolios in the country [while maintaining] **robust fixed-charge coverage . . . [and an] extremely strong liquidity position.**”

# **Evolving Technologies**

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**Customers' Embrace Of Energy Efficiency  
And Bypass Technologies Might  
Challenge The Traditional Utility  
Business Model**



# Are These Technologies, Utilities' Nemesis?



# JEA, FL



“**JEA**, as the primary deliverer of electricity in Northeast Florida, **is facing many challenges. The number of customers JEA serves is increasing, but revenues are decreasing** due to forces shaping the overall electric and water utilities sector.

...

**[JEA’s] value will only diminish over time if it does not explore opportunities** afforded now as a non-governmental entity through a recapitalization event.”

## JEA, FL Ratings Unaffected By Utility's Announcement It Will Study Divestiture Or Restructuring

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“In its May board presentation, management said that perpetuating the utilities in their current form could "cripple JEA's ability to evolve and remain relevant," and that business-as-usual "traditional responses" will lead to "organized decline. We consider [management's] assessment to be a departure from **the two utility systems' historical and projected financial profiles, and other public power and water and sewer utilities' responses to similar challenges.** However, we do not see this assessment as presenting an imminent challenge to our ratings. **Management [reiterated its] commitment to its five-year financial forecast showing capacity to meaningfully reduce leverage, produce debt service coverage consistent with the ratings, and maintain retail rates at current levels.**”

# Wildfires And Inverse Condemnation Claims

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# Wildfires and Climate Change: California's Energy Future

A Report from Governor Newsom's Strike Force

April 12, 2019

“ If we continue on our current legal and regulatory path, we will get similar results – more deadly and destructive fires that put utilities near insolvency. That is unacceptable for fire victims and utility customers and is incompatible with an economy that requires safe, reliable, and affordable power.”

# Public Power Utilities Are Not Immune From Wildfire Exposure And Related Inverse Condemnation Claims

	Current Rating and Outlook	Prior Rating and Outlook
<b>Glendale Electric</b>	<b>AA- / Negative</b>	<b>AA- / Stable</b>
<b>Sacramento Municipal Utility District</b>	<b>AA / Negative</b>	<b>AA / Stable</b>
<b>Transmission Agency of Northern California</b>	<b>A+ / Negative</b>	<b>A+ / Stable</b>
<b>Trinity Public Utilities District</b>	<b>A- / Negative</b>	<b>AA- / Stable</b>

## California Public Power Utilities Are Better Able To Temper Wildfire Related Liability Exposures Than IOU Counterparts

**Primary Credit Analysts:**

David N Bodek, New York (1) 212-438-7969; david.bodek@spglobal.com

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@spglobal.com

**Secondary Contacts:**

Doug Snider, Centennial + 1 (303) 721 4709; doug.snider@spglobal.com

Timothy P Meernik, Centennial + 1 (303) 721 4786; timothy.meernik@spglobal.com

NEW YORK (S&P Global Ratings) Feb. 28, 2019--Several terrible wildfires have struck California in recent years, and authorities allege that electric utility power lines caused some of these fires. The resulting significant personal and property damage, including the loss of lives, has led many affected to bring substantial legal claims for damages against some of the state's electric utilities. For example, estimates of claims against the Pacific Gas & Electric Co., are in the tens of billions of dollars.

Nevertheless, S&P Global Ratings believes regulator and operational factors temper the exposure of California public power utilities to potential wildfire-related liability. S&P Global Ratings believes that California public power utilities are better able to temper wildfire-related liability exposures than IOU counterparts.



# Underpinnings Of S&P's Assessment of California Public Power Utilities' Relative Exposure to Wildfire Claims

- S&P views public power utilities' exposure to inverse condemnation liability claims to be more remote than the investor-owned utilities' exposure, because . . .
  - Areas deemed by the CPUC as presenting a high fire risk tend to represent a lesser percentage of MOU service territories compare with IOUs
    - Some exceptions: Glendale, TANC, SMUD and Trinity PUD
  - California MOUs tend to be strong stewards of their assets
  - As city departments, many MOUs are developing fire mitigation plans in collaboration with local fire departments
  - Unlike IOUs, MOUs need not engage in potentially protracted adversarial prudence proceedings as a precondition to recovering liability costs in rates

# **Despite Developing Risks, Ratings Remain Strong And Vulnerable Ratings Are Few**

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# Public Power Utilities' Rating Drivers

- The strong pathway for cost recovery that autonomous ratemaking provides
- A conservative business model devoid of a profit motive
- Generally strong strategic planning focusing on addressing emissions exposures and facilitating interfacing with evolving power markets
- Management's commitment to lenders and customers

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