

S&P Global Ratings' Revised Criteria for U.S. Public Power and Electric Cooperative Utilities: Key Elements of the Revised Criteria



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Scott Sagen

Associate Director

Public Power and Electric Cooperative Ratings

scott.sagen@spglobal.com

Agenda: **Key Elements of the Revised Criteria**

Why Did S&P
Revise its
Criteria?

What Has
and Hasn't
Changed?

Structural
Elements of
the Revised
Criteria

Rating
Observations
To Date

Why Did S&P Global Revise its Criteria?

Increase transparency to the marketplace

Develop a unified framework for criteria

Facilitates consistency in each utility's rating

What Hasn't Changed?

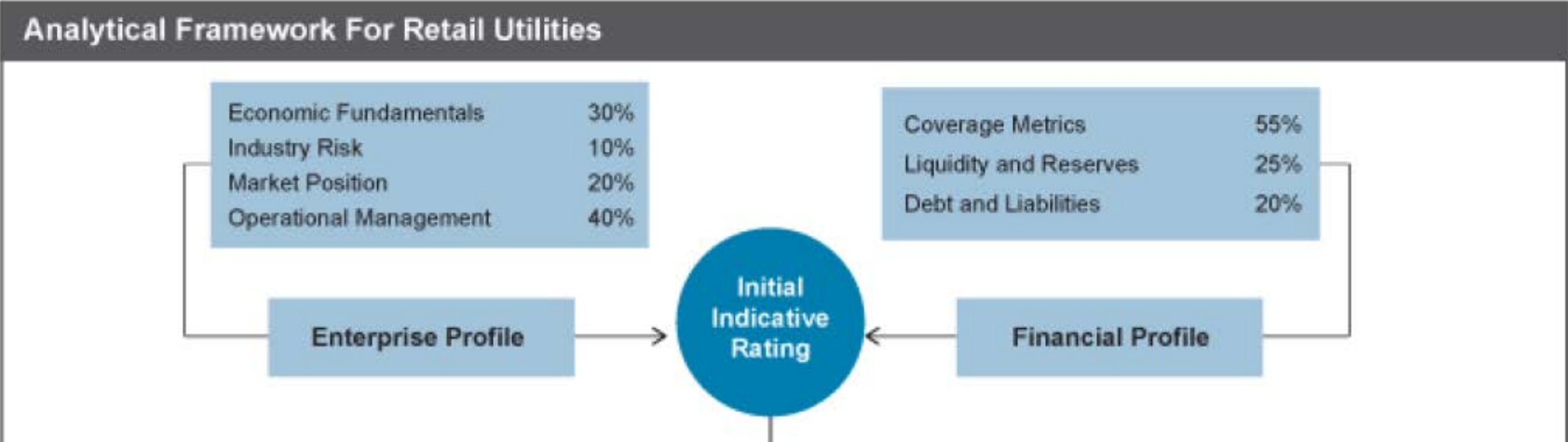
Analysis remains qualitative and quantitative

Analyzes same key credit factors

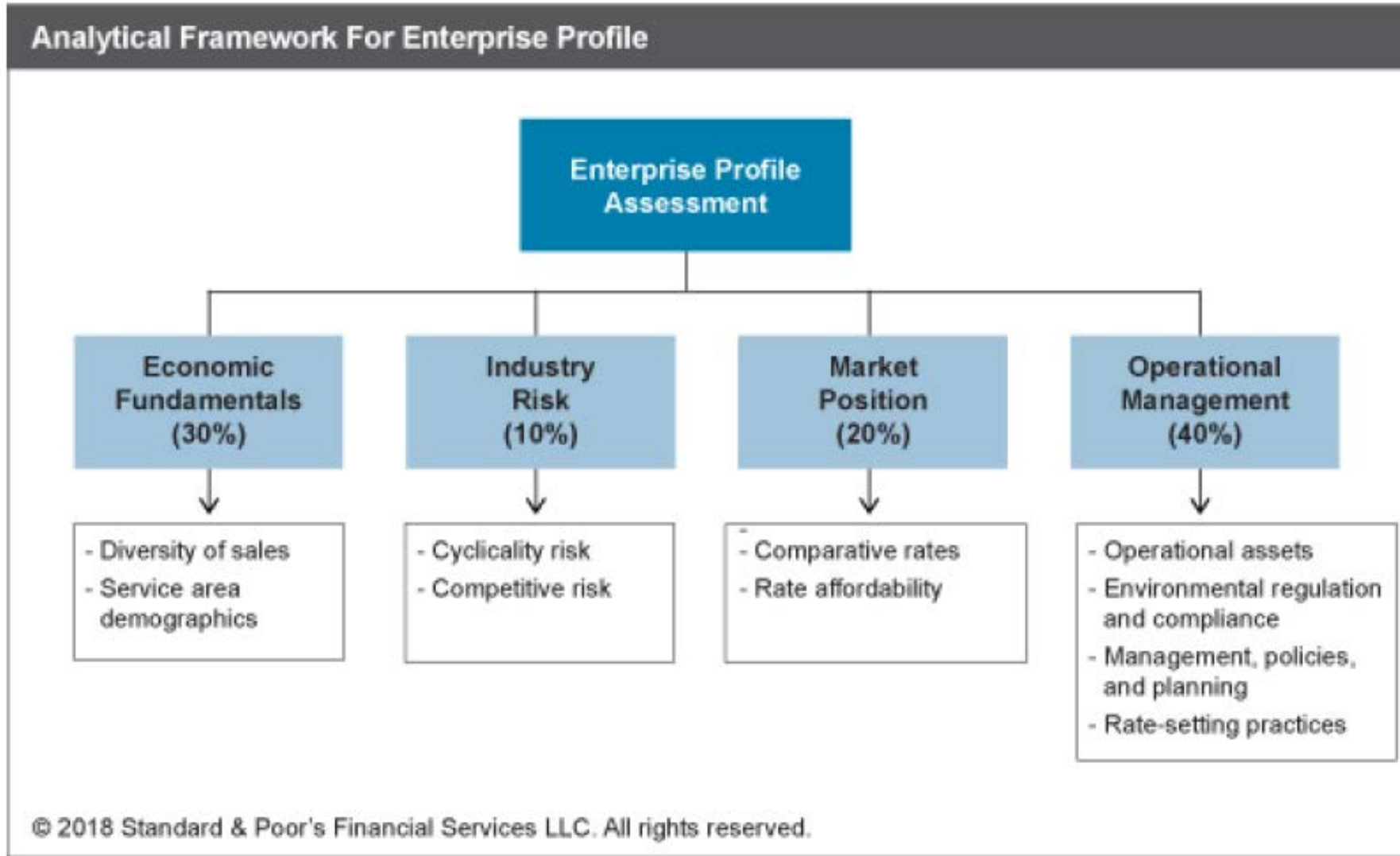
Preserves analytic flexibility and is not formulaically rigid

What Has Changed?

New analytical framework assigns weightings for key credit factors



Enterprise Profile Framework



What is an Operational and Management Assessment? (40%)

OPERATIONAL ASSETS

- Diversity of owned or purchased power/gas supply (e.g., sources)
- Diversity of fuels
- Quality of assets
- Resource adequacy
- Flexibility of supply

ENVIRONMENTAL REGULATION / COMPLIANCE

- Compliance status
- Cost/rate impact of complying with existing/imminent regulations
- Exposure to future regulations

MANAGEMENT POLICIES, AND PLANNING

- Depth, experience, and sophistication of management
- Budgetary/financial policies and practices
- Long-term strategic, financial and capital planning

RATE SETTING PRACTICES

- Degree of rate setting autonomy
- Cost-recovery: Timeliness and adequacy of historical base rate increases
- Cost-recovery: Timeliness and adequacy of power/fuel/ gas cost adjustments

Utilities within the Scope of Criteria

All in-scope credits will be reviewed by end of March 2020

- Retail Electric
- Retail Gas
- Steam
- Municipal Chilled Water Utilities
- Electric Distribution Cooperatives

Economic Fundamentals (30%)

Assessment provides insight into the utility's customer base

We look at a variety of factors, including...

- Residential customer revenue
- Top 10 customers
- Income levels

Some Common Adjustments

- Size and scale
- Customer concentration mitigants
- Income mitigants

Market Position (20%)

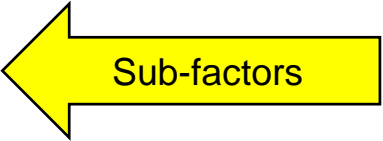
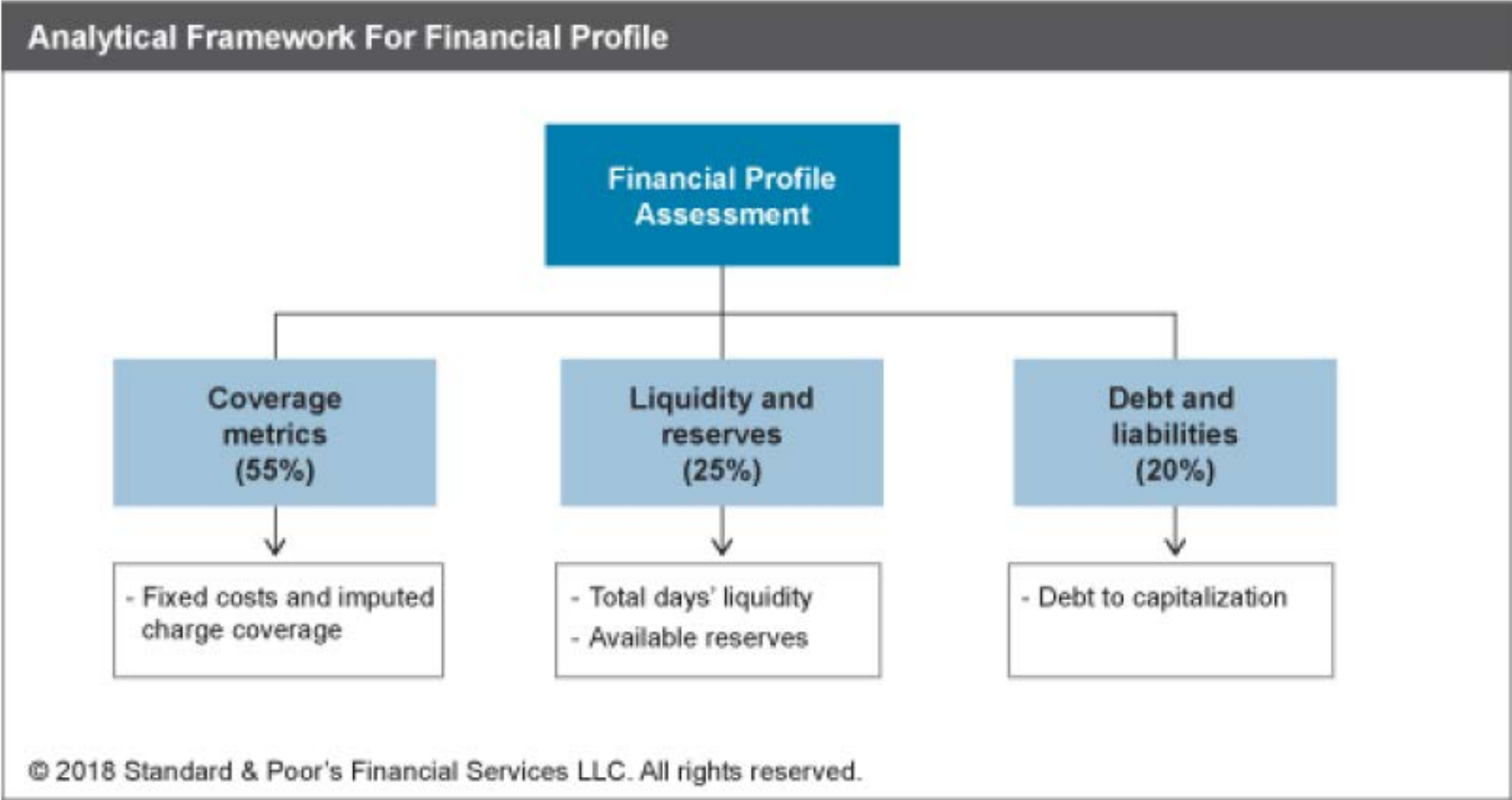
Assessing a utility's rate making flexibility

Focuses on the utility's weighted average revenue per kWh as % of state average.

Some Common Adjustments

- Presence of automatic power cost adjustment mechanism
- Consideration of income levels
- Recent or planned rate changes

Financial Profile Framework



Coverage Metrics (55%)

Fixed costs and imputed charge coverage reflects financial capacity to meet all obligations

Add Back Fixed Cost and Fixed Cost Proxies to Net Revenues
Fixed Costs and Fixed Cost Proxies + Total Debt Service

- Fixed charge coverage also takes into account transfers to other funds
- Methodology assumes 50% of purchased power expenses are capacity related where the utility cannot provide actual capacity payments
- Forward-looking view and importance of financial projections

Liquidity and Reserves (25%)

Provides a safety net for unforeseen costs or events

Available Liquidity and Reserves

- Consider absolute and relative amounts (days cash)
- Includes undrawn committed bank lines and undrawn Taxable Commercial Paper
- Does NOT include uncommitted bank lines and undrawn Tax Exempt CP

Some Common Adjustments

- Positive adjustment for distribution systems
- Negative adjustment for contingent liquidity risks

Debt and Liabilities (20%)

We have different scales for distribution and vertically integrated utilities

Focus on debt to capitalization ratio (debt/debt + net position)

Some Common Adjustments

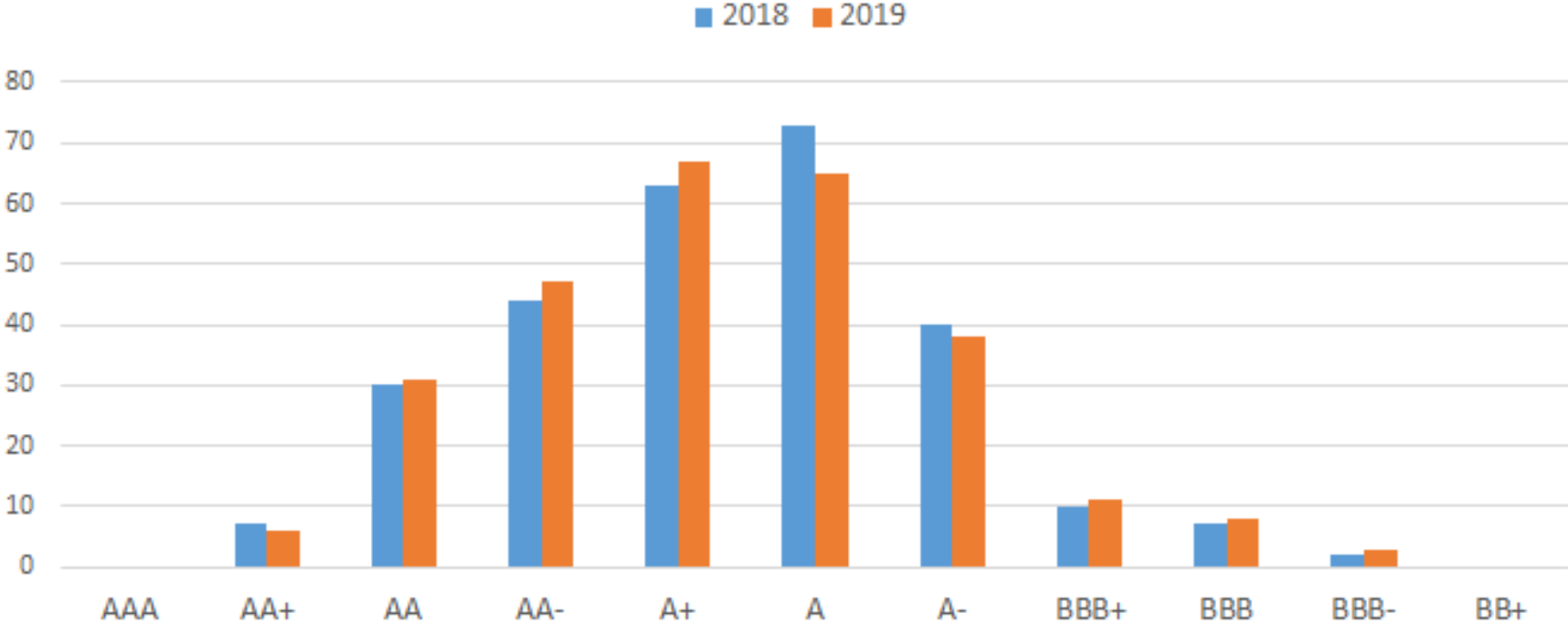
- Forward-looking view
- Impact of additional debt needs

Initial Indicative Rating

		Initial Indicative Rating					
		Financial Profile					
		1 Extremely Strong	2 Very Strong	3 Strong	4 Adequate	5 Vulnerable	6 Highly Vulnerable
Enterprise Profile	1 Extremely Strong	aaa	aa+	aa-	a	bbb+/bbb	bb+/bb
	2 Very Strong	aa+	aa/aa-	a+	a-	bbb/bbb-	bb/bb-
	3 Strong	aa-	a+	a	bbb+/bbb	bbb-/bb+	bb-
	4 Adequate	a	a/a-	a-/bbb+	bbb/bbb-	bb	b+
	5 Vulnerable	bbb+	bbb/bbb-	bbb-/bb+	bb	bb-	b
	6 Highly Vulnerable	bbb-	bb	bb-	b+	b	b-

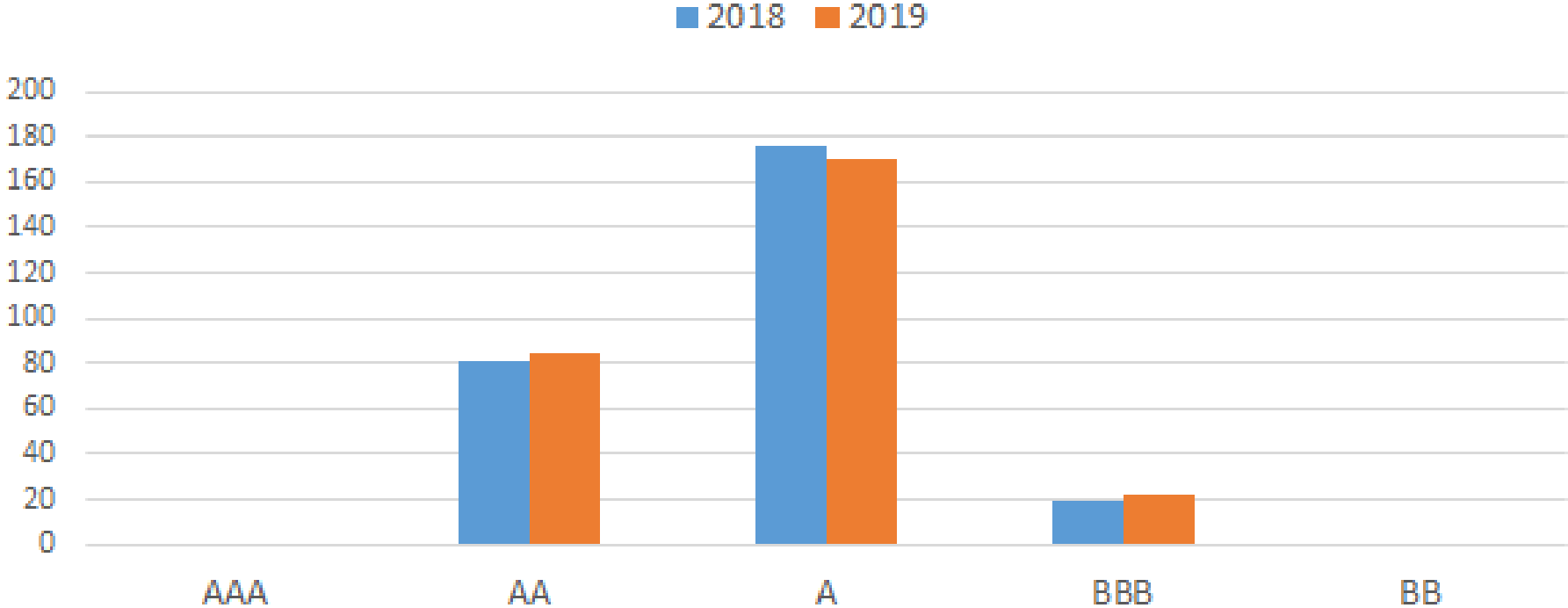
Rating Observations To Date

S&P's Rating Distributions for Public Power and Electric Cooperative Utilities



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S&P's Rating Distributions for Public Power and Electric Cooperative Utilities

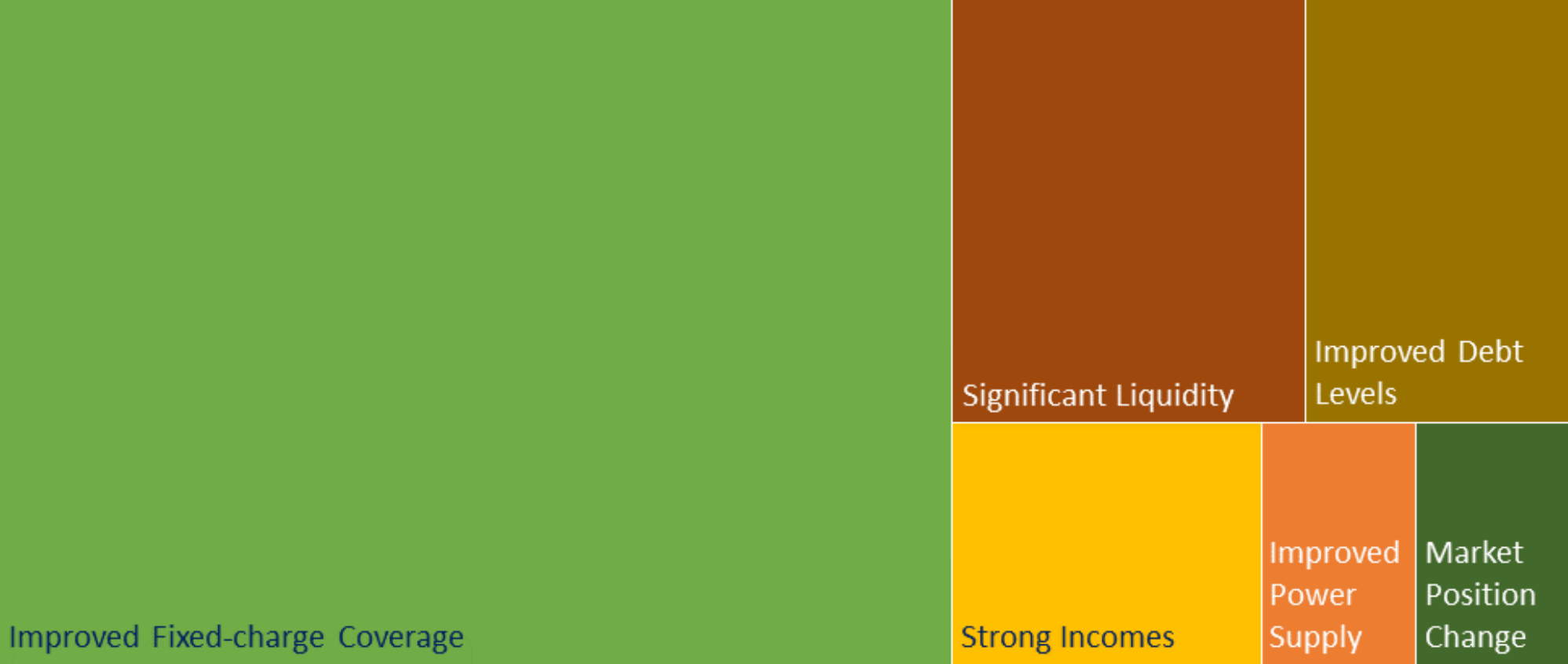


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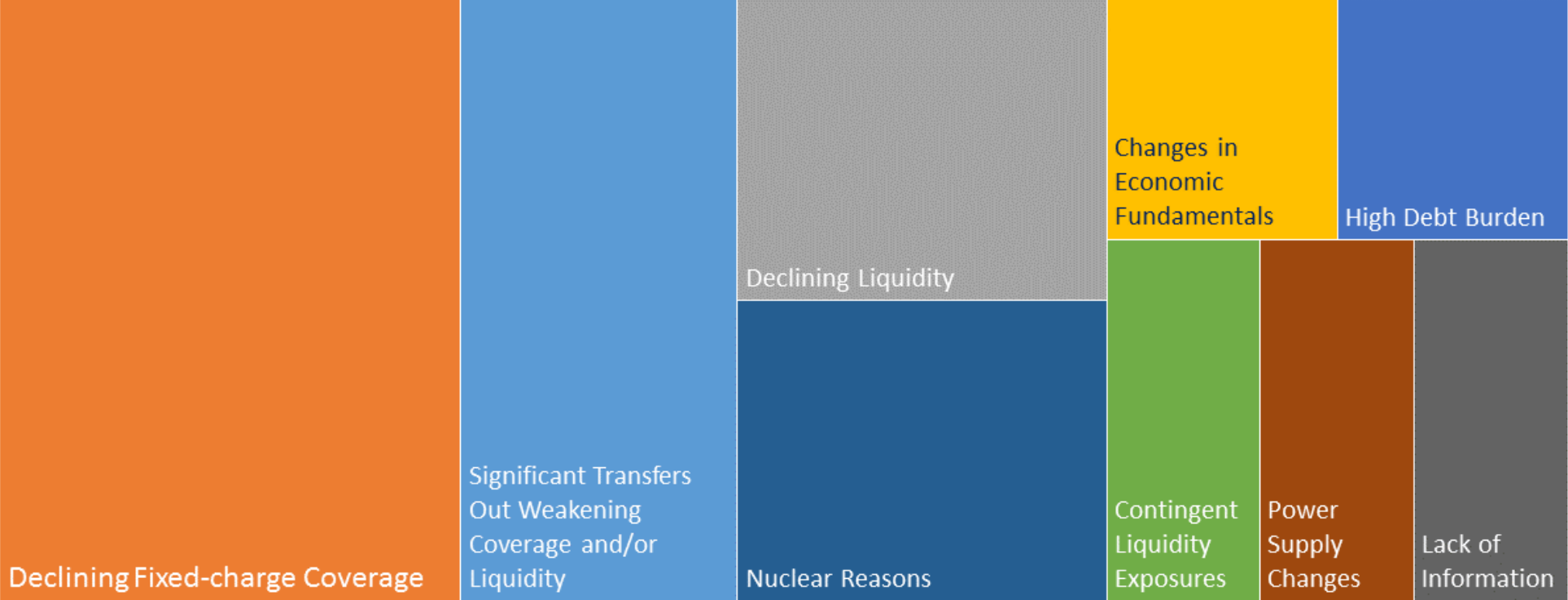
Some Examples of Recent Rating Actions

Issuer	State	Notch Change	Rating
Lanett	AL	-2	BBB
Moulton	AL	-2	BBB
Troy	AL	-2	BBB-
Vernon	CA	-1	BBB+
JEA	FL	-1	A+
Dalton	GA	-1	A-
Groveland	MA	1	A+
Holden Twn Mun Light Dept	MA	1	A+
Middleton Muni Electric Dept	MA	1	A+
North Attleborough	MA	1	AA-

Common Themes Among Upgrades:



Common Themes Among Downgrades:



Contact Information: Municipal and Cooperative Utilities

Jenny Poree, San Francisco (1) 415-371-5044
Analytical Manager & Head of Municipal and
Cooperative Utilities
jenny.poree@spglobal.com

David Bodek, New York (1) 212-438-7969
Senior Director, Sector Leader
david.bodek@spglobal.com

Jeffrey Panger, New York (1) 212-438-2076
Director, Lead Analyst
jeff.panger@spglobal.com

Paul Dyson, San Francisco (1) 415-371-5079
Director, Lead Analyst
paul.dyson@spglobal.com

Scott Sagen, Nashville (1) 212-438-0272
Associate Director
scott.sagen@spglobal.com

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

Tim Meernik, Centennial (1) 303-371-4786
Associate
timothy.meernik@spglobal.com