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

Source: NJ.com
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

Analytical Framework For Enterprise Profile

- Economic Fundamentals (30%)
  - Diversity of sales
  - Service area demographics

- Industry Risk (10%)
  - Cyclicality risk
  - Competitive risk

- Market Position (20%)
  - Comparative rates
  - Rate affordability

- Operational Management (40%)
  - Operational assets
  - Environmental regulation and compliance
  - Management, policies, and planning
  - Rate-setting practices

Factors
Sub-factors
**What is an Operational and Management Assessment? (40%)**

<table>
<thead>
<tr>
<th>OPERATIONAL ASSETS</th>
<th>ENVIRONMENTAL REGULATION / COMPLIANCE</th>
<th>MANAGEMENT POLICIES, AND PLANNING</th>
<th>RATE SETTING PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversity of owned or purchased power/gas supply (e.g., sources)</td>
<td>Compliance status</td>
<td>Depth, experience, and sophistication of management</td>
<td>Degree of rate setting autonomy</td>
</tr>
<tr>
<td>Diversity of fuels</td>
<td>Cost/rate impact of complying with existing/imminent regulations</td>
<td>Budgetary/financial policies and practices</td>
<td>Cost-recovery: Timeliness and adequacy of historical base rate increases</td>
</tr>
<tr>
<td>Quality of assets</td>
<td>Exposure to future regulations</td>
<td>Long-term strategic, financial and capital planning</td>
<td>Cost-recovery: Timeliness and adequacy of power/fuel/gas cost adjustments</td>
</tr>
</tbody>
</table>
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

Analytical Framework For Financial Profile

Financial Profile Assessment

Coverage metrics (55%)
- Fixed costs and imputed charge coverage

Liquidity and reserves (25%)
- Total days’ liquidity
- Available reserves

Debt and liabilities (20%)
- Debt to capitalization

Factors
Sub-factors

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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

<table>
<thead>
<tr>
<th>Enterprise Profile</th>
<th>Financial Profile</th>
<th>1 Extremely Strong</th>
<th>2 Very Strong</th>
<th>3 Strong</th>
<th>4 Adequate</th>
<th>5 Vulnerable</th>
<th>6 Highly Vulnerable</th>
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</thead>
<tbody>
<tr>
<td>1 Extremely Strong</td>
<td>aaa</td>
<td>aa+</td>
<td>aa-</td>
<td>a</td>
<td>bbb+/bbb</td>
<td>bb+/bb</td>
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<tr>
<td>2 Very Strong</td>
<td>aa+</td>
<td>aa/aa-</td>
<td>a+</td>
<td>a-</td>
<td>bbb/bbb-</td>
<td>bb/bb-</td>
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<tr>
<td>3 Strong</td>
<td>aa-</td>
<td>a+</td>
<td>a</td>
<td>bbb+/bbb</td>
<td>bbb-/bb+</td>
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<tr>
<td>4 Adequate</td>
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<td>a/a-</td>
<td>a-/bbb+</td>
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<td>5 Vulnerable</td>
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<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
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<td>bb-</td>
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<tr>
<td>6 Highly Vulnerable</td>
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<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td>b</td>
<td>b-</td>
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</table>
Rating Observations To Date

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

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

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### Some Examples of Recent Rating Actions

<table>
<thead>
<tr>
<th>Issuer</th>
<th>State</th>
<th>Notch Change</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Lanett</td>
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<td>BBB</td>
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<tr>
<td>Moulton</td>
<td>AL</td>
<td>-2</td>
<td>BBB</td>
</tr>
<tr>
<td>Troy</td>
<td>AL</td>
<td>-2</td>
<td>BBB-</td>
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<tr>
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<tr>
<td>JEA</td>
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<td>-1</td>
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<td>Dalton</td>
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<tr>
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<td>MA</td>
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<td>A+</td>
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<td>A+</td>
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<tr>
<td>Middleton Muni Electric Dept</td>
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<td>A+</td>
</tr>
<tr>
<td>North Attleborough</td>
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<td>AA-</td>
</tr>
</tbody>
</table>
Common Themes Among Upgrades:

- Improved Fixed-charge Coverage
- Significant Liquidity
- Improved Debt Levels
- Strong Incomes
- Improved Power Supply
- Market Position Change
Common Themes Among Downgrades:

- Declining Fixed-charge Coverage
- Significant Transfers Out Weakening Coverage and/or Liquidity
- Declining Liquidity
- Nuclear Reasons
- Changes in Economic Fundamentals
- Contingent Liquidity Exposures
- Power Supply Changes
- Lack of Information
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