



Moody's Presentation: Municipal Electric Utility Financial Credit Factors

Florida Municipal Electric Association Conference-July 22

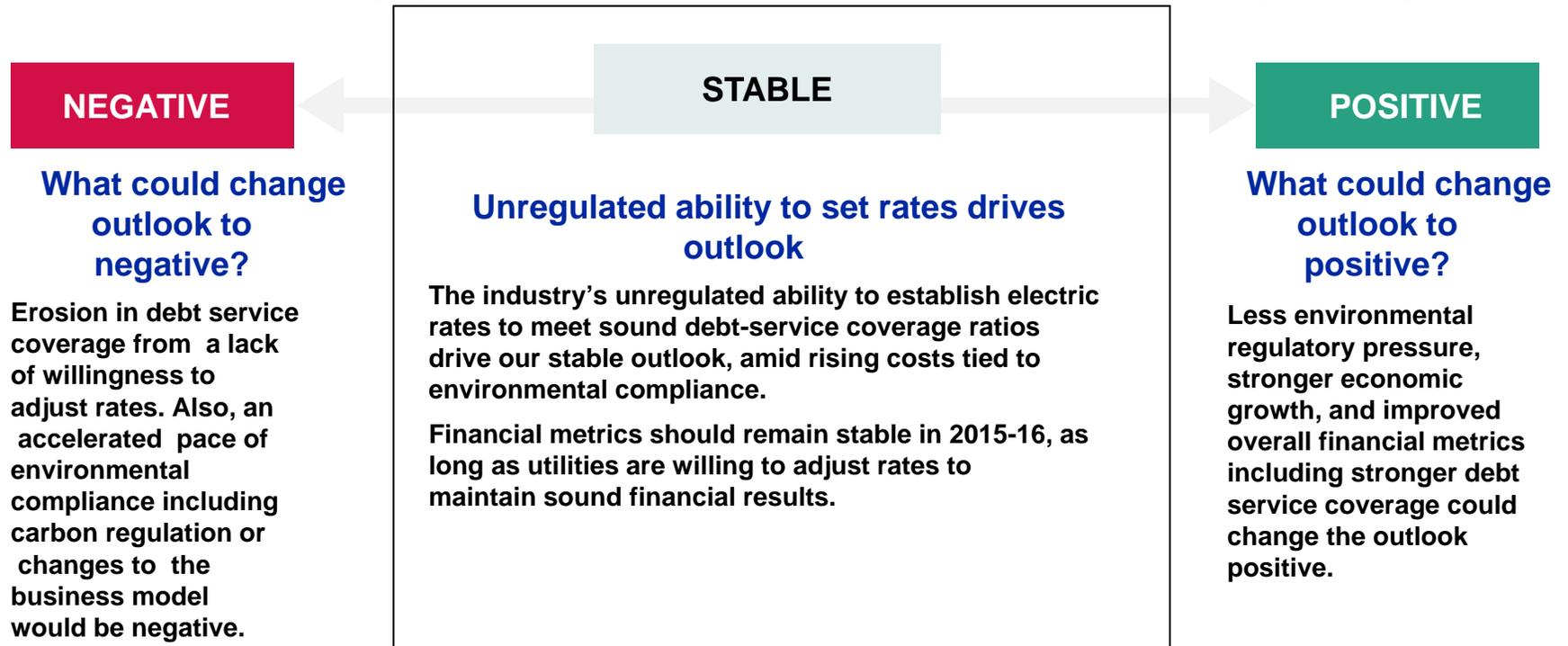
Agenda

- **Public power credit outlook 2015-16**
- **Florida public power electric utility outlook**
- **Key financial credit factors:**
 - **Regulation and Governance**
 - **Payments to Cities**
 - **Liquidity**
- **Moody's Public Power Rating Methodology**
- **Conclusion/Questions**

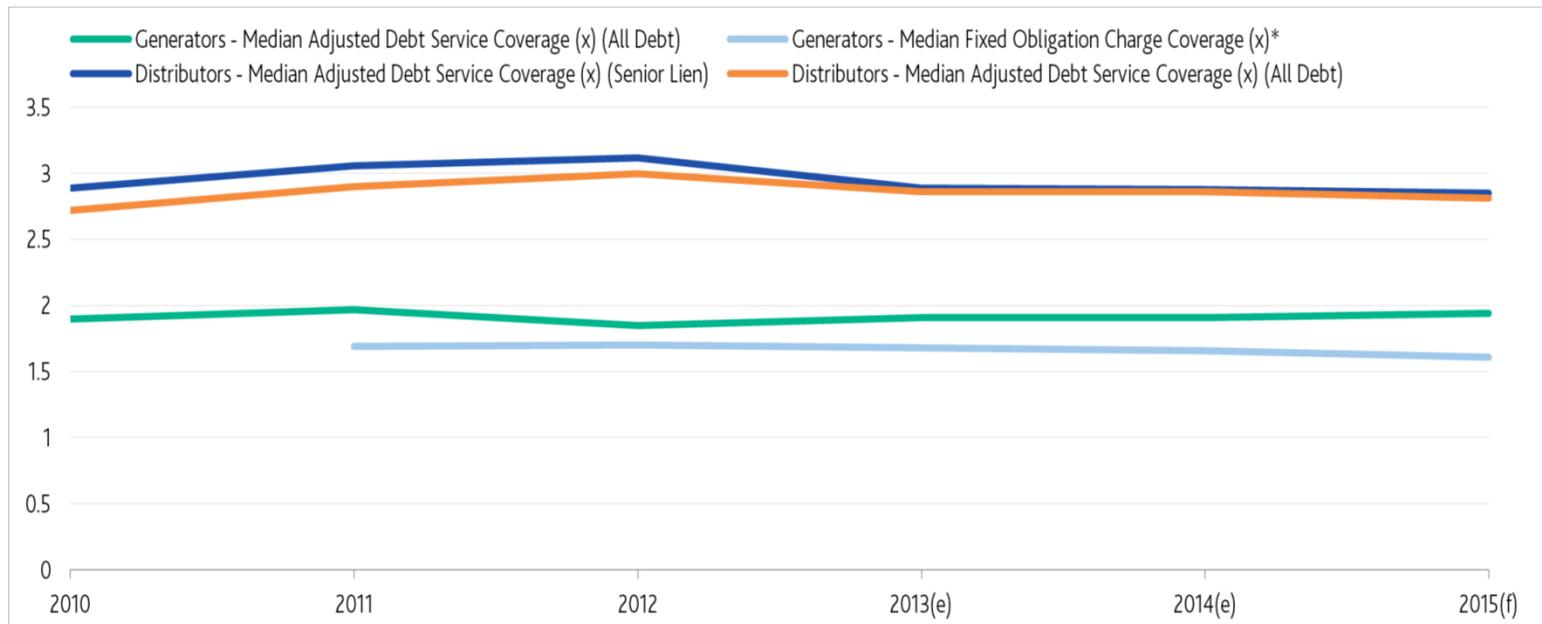
2015-16 US Public Power Outlook

Key credit issues

- » Ability and willingness to establish electric rates to meet sound debt-service coverage ratios drive our stable outlook
- » Financial metrics are stable in 2015, utilities have been willing to adjust **electric** rates
- » Pace of environmental compliance and transition to cleaner power sources could still pressure electric rates
- » Power markets are changing, adding a layer of uncertainty about cost recovery of existing and new generation



US Public Power Electric Utilities Debt Service Coverage Metrics and 2015 Forecast



Emerging Risks in Forecast:

***Carbon Rule (reliability impact and affordability risks)**

***Distributive generation and fixed cost recovery**

***Issues with regional markets (execution risk and short vs. long term prices)**

Florida Public Power Electric Credit Utility Outlook

***Relatively level and stable natural gas prices bodes well for revenue stability and debt service coverage**

***Overhang of issues such as unmitigated natural gas hedges, pension fund issues and interest rate swap exposure being resolved**

***Lack of fuel diversity, phase-in of intermittent renewable resources and managing new growth are potential pressures.**

Financial Credit Factor: Regulation

*** From a credit perspective, utility regulation of rates subjects utility cost recovery to delay and potential under-recovery.**

***Public power electric utilities require timely rate-setting and full fixed cost recovery since revenue bond debt is amortizing.**

***Non-profit status and local control of public power electric utilities provides less potential for imprudent costs due to governing board oversight.**

***Moody's weights negatively public power electric utilities that become subject to state rate regulation.**

***Examples: LIPA;LCRA; FMPA?**

Financial Credit Factor: Governance

***Regulation is typically a threat used when governance or management issues go unresolved.**

***There are many examples of strong governance and management in Florida:**

- *JEA and pensions**

- * FMPA role in fuel diversity and transmission access**

***Best structure: city department or separate authority**

- *The easy answer is separate authority but really it depends.**

- * Participants need to establish institutional structure that strengthens city resolving issues such as rate setting when required for a sound financial position**

Financial Credit Factor: Payments and Contributions to State and Local Governments

Payments and Contributions to State and Local Governments From Public Power Electric Utilities				
Utility	Fiscal Year	Operating Revenues (\$millions)	Payments/Contributions (\$millions)	%Operating Revenues
LADWP	2010	\$3,235	220	6.8
	2013	3,163	250	7.9
LIPA	2010	3,853	282	7.3
	2013	3,756	342	9.1
SRP	2010	2,362	102	4.3
	2013	2,566	142	5.5
CPS	2010	1,931	273	14.1
	2013	2,214	284	12.8
JEA	2010	1,372	144	10.5
	2013	1,242	144	11.6
Gainesville	2010	376	34	9.0
	2013	348	37	10.6
Lakeland	2010	354	25	7.1
	2013	302	24	7.9
Tallahassee	2010	371	27	7.3
	2013	313	27	8.6

Source: Moody's: US Public Power Electric Utilities: Payments to Local Governments Are Stable But Vulnerable Amid Fiscal Pressures, May 2014

When are General Fund Transfers A Negative Credit Factor?

***If the amount transferred is high, which hurts the competitiveness of the utility.**

***If the transfers reduce the flexibility for utility capital improvements.**

***If the transfer is held hostage to political debate and it becomes a distraction to the detriment to the overall objectives of the utility.**

***If the transfer is increased and the transfer to city doesn't come with a relative retail rate increase.**

Financial Credit Factor: What is the Right Level of Liquidity?

LIQUIDITY ACCORDING TO MOODY'S PUBLIC POWER METHODOLOGY

Adjusted days liquidity on hand (3 year average)(days)						
Aaa	Greater than 250 days					
Aa	150 to 249 days					
A	90 to 149 days					
Baa	30 to 89 days					
Ba	Less than 30 days					
Definition: (Unrestricted cash and investments) (eligible unused bank including unused CP) x 365 days/(utility's annual operating and maintenance expenses).						



Financial Liquidity Days on Hand Median for Largest 10 Florida Public Power Electric Utilities

***Three-year average 2012-2014- 206 days cash on hand**

***FY 2014- 203 days cash on hand**



Exceptions to the Rule:

- *More liquidity or access to if there is fuel risk**
- *Bank lines must be eligible to be counted like cash**
- *Lack of debt service reserve**
- *Risk management program a favorable consideration**

Public Power Electric Utility Scorecard- A User Guide

Factor	Weight	Aaa	Aa	A	Baa	Ba
Total Weight	100%	1	3	6	9	12
1. Cost Recovery Framework Within Service Territory	25%	Monopoly with unregulated rate setting; Very strong service area economy	Monopoly with unregulated rate setting; Strong service area credit economy	Monopoly with unregulated rate setting; Average service area economy	Regulation of rates by State; Weak service area economy	Regulation of rates by State; Very weak service area economy
2. Willingness and Ability to Recover Costs with Sound Financial Metrics	25%	Excellent rate-setting record; Rates, fuel, & purchased power cost adjustments less than 10 days; No political intervention in past or extremely high support from related government; Very limited General Fund transfers governed by policy	Strong rate-setting record; Rates, fuel, & purchased power cost adjustments 10 to 30 days; Limited political intervention in past or high support from related government; Conservative and well-defined General Fund transfers governed by policy	Adequate rate-setting record; Rates, fuel, & purchased power cost adjustments 31 to 60 days; Some political intervention in past or average support from related government; Moderate General Fund transfers	Below average rate-setting record; Rates, fuel, & purchased power cost adjustments 61 to 99 days; Persistent political intervention or below average support from related government; Large General Fund transfer not governed by policy	Consistent record of insufficiently setting rates; Rates, fuel, & purchased power cost adjustments 100 days or more; Highly political climate or no support from related government; Sizeable General Fund transfer not governed by policy
3. Generation Risks	10%	Very strong management of generation risks; High degree of diversification of generation and/or fuel sources; Well insulated from commodity price changes; Single generation asset typically provides less than 20% of power; and/or up to 20% of energy from coal-fired generation with carbon mitigation strategy	Strong management of generation risks; Some diversification of generation and/or fuel sources; Minimally affected by commodity price changes; Single generation asset typically provides less than 40% of power; and/or 21% to 40% of energy from coal-fired generation with carbon mitigation strategy	Average management of generation risks; Some reliance in one type of generation or fuel source, but diversified with purchased power sources; Modest exposure to commodity price changes; Single generation asset typically provides 40% to 55% of power; and/or 41% to 55% of energy from coal-fired generation with carbon mitigation strategy	Below average management of generation risks; Reliance on a single type of generation or fuel source, with limited diversification via purchased power; Moderate exposure to commodity prices; Single generation asset typically provides 56% to 75% of power; and/or 56% to 70% of energy from coal-fired generation with no carbon mitigation strategy	Poor management of generation risks; High concentration in a single type of generation or highly reliant on a single fuel source, with minimal diversification via purchased power; Notably exposed to commodity price shocks; Single generation asset typically provides over 75% of power; and/or 71% to 100% of energy from coal-fired generation with no carbon mitigation strategy
4. Rate Competitiveness	10%	More than 25% below average	25% to 7.51% below average	7.5% below average to 7.5% above average	7.51% to 25% above average	More than 25% above average
5. Adjusted Days Liquidity on Hand (days)	10%	≥ 250 days	≥ 150 days to 249 days	≥ 90 days to 149 days	≥ 30 days to 89 days	Less than 30 days
5. Debt Ratio (%)	10%	Less than 25%	≥ 25% less than 50%	≥ 50% less than 75%	≥ 75% less than 100%	≥ 100%
5. Adjusted Debt Service Coverage Ratio or Fixed Obligation Coverage Ratio (x)	10%	≥ 2.50x	≥ 2.00x to 2.49x	≥ 1.50x to 1.99x	≥ 1.10x to 1.49x	Below 1.10x
Notching Factors						
1. Operational - (i.e. Customer Concentration, additional borrowing needs, construction risk)						
2. Financial - (i.e. Covenant or Derivative Risks, Financial Engineering, other liquidity related risks, DSRF funding levels below AADS)						
3. Other - (i.e. factors not appropriately captured in the grid like regional rate competitiveness compared to the state)						

Moody's Public Power Utility Credit Analysts

Public Power Electric Utilities that own generation and joint action agencies rated by Moody's Global Project & Infrastructure Finance Group. Distributors rated in Moody's Public Finance Group.

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Questions?

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