



# Texas Public Power Association 2009 Conference

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**Fitch Ratings**

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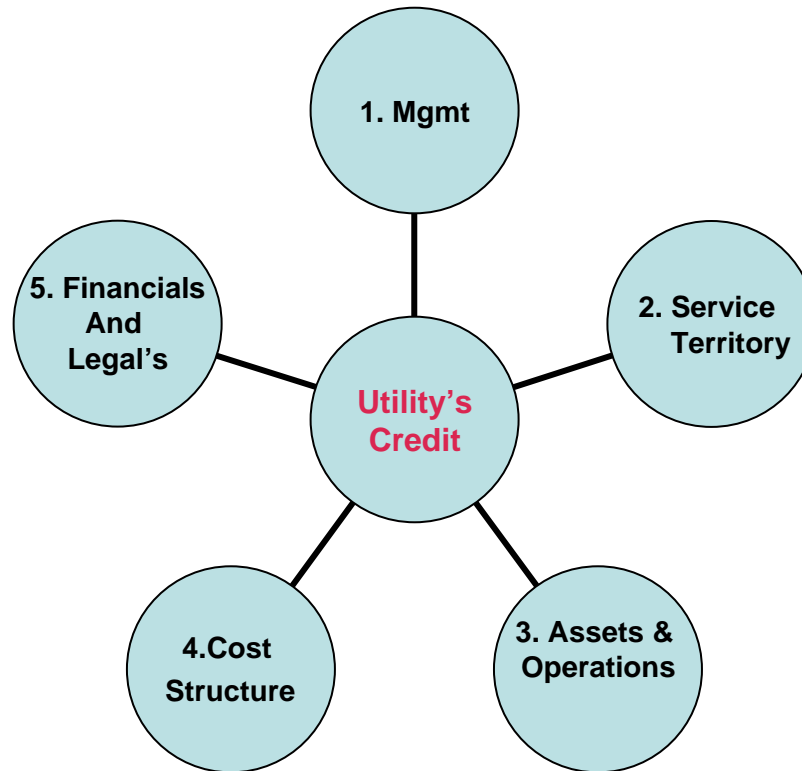


## The Credit Drivers of the Current Market Environmental

- > The Basic Pillars of Public Power Credit.
- > New Rating Considerations:
  - Economic Issues.
  - Financial Considerations.
  - Environmental Credit Considerations.
- > Fitch's Public Power Outlook - How Does it Stack up to other Sectors?.



# Primary Credit Factors

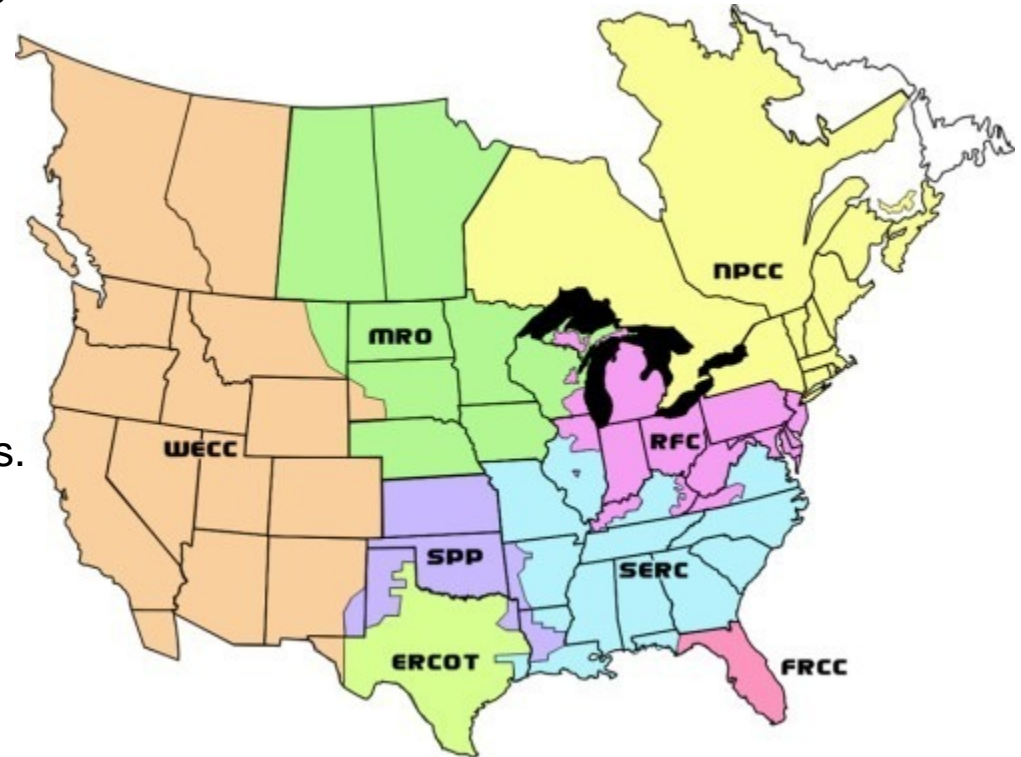




## Location, Location, Location

> Each region has distinct characteristics affecting the utilities' credit profile:

- Fuel supply.
- Water supply.
- environmental.
- Regional politics.
- Service territory characteristics.
- New Developments.

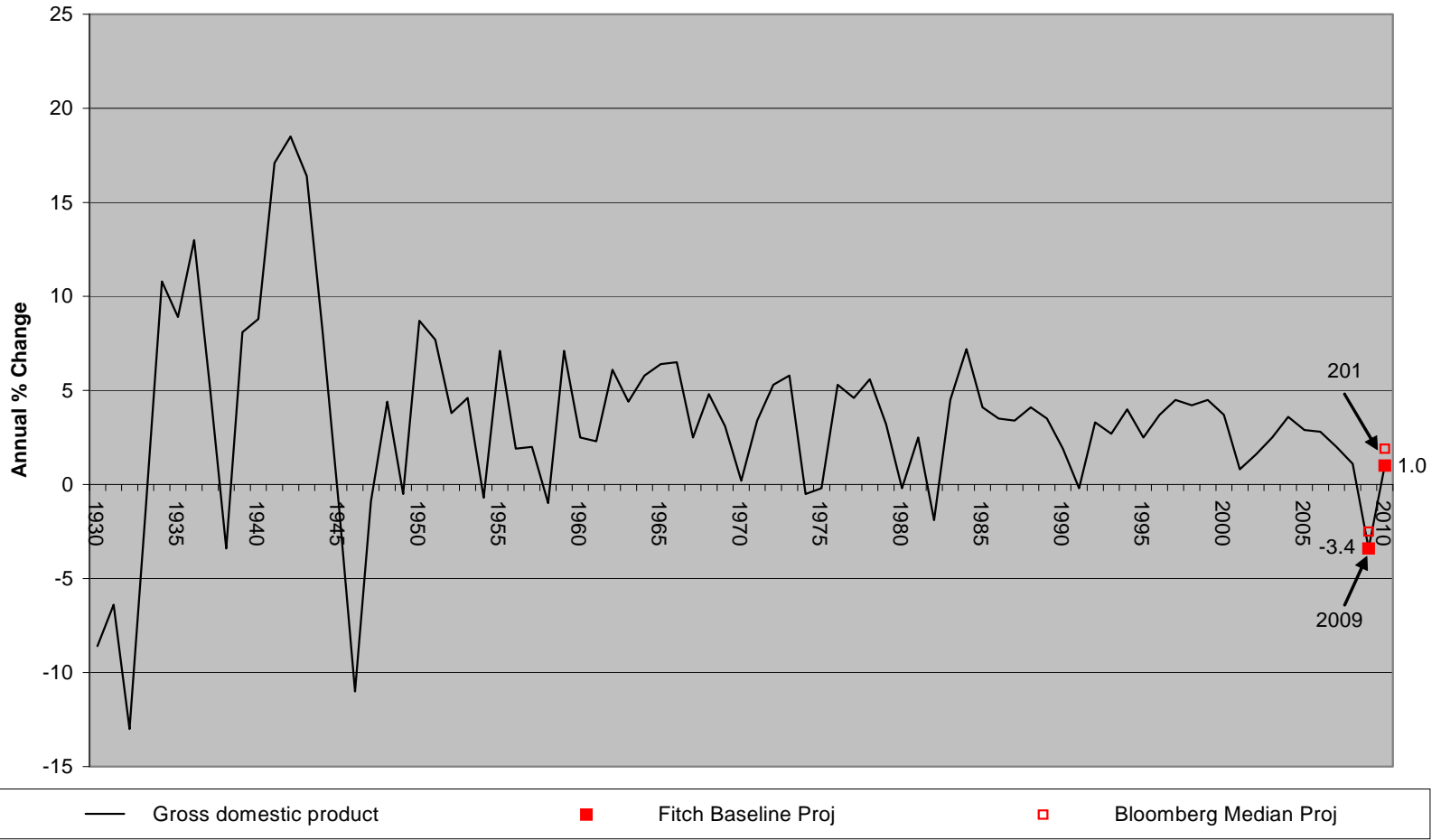




## **New Rating Considerations Economic Issues**

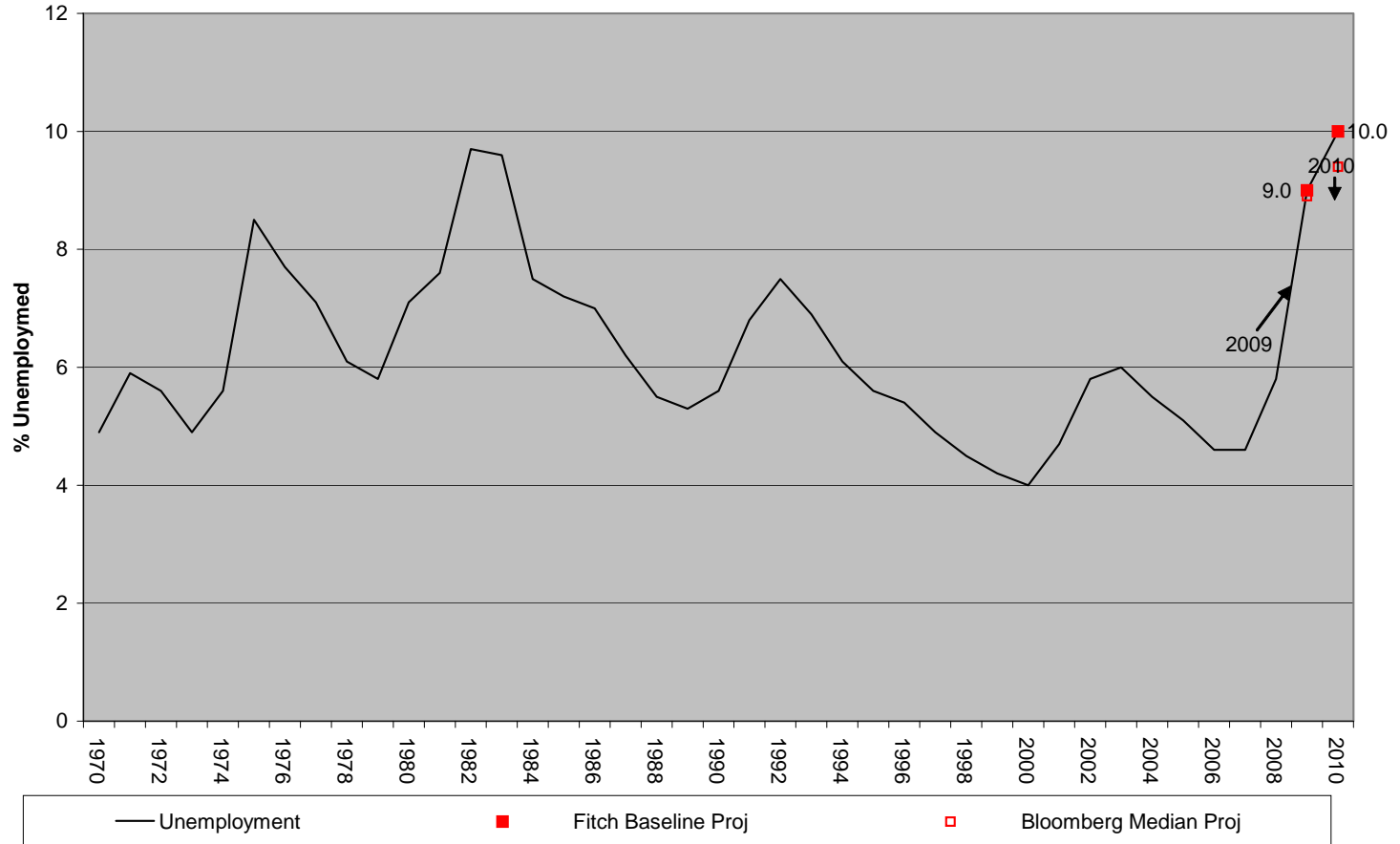


**US Annual Real GDP Change - History + Projections**



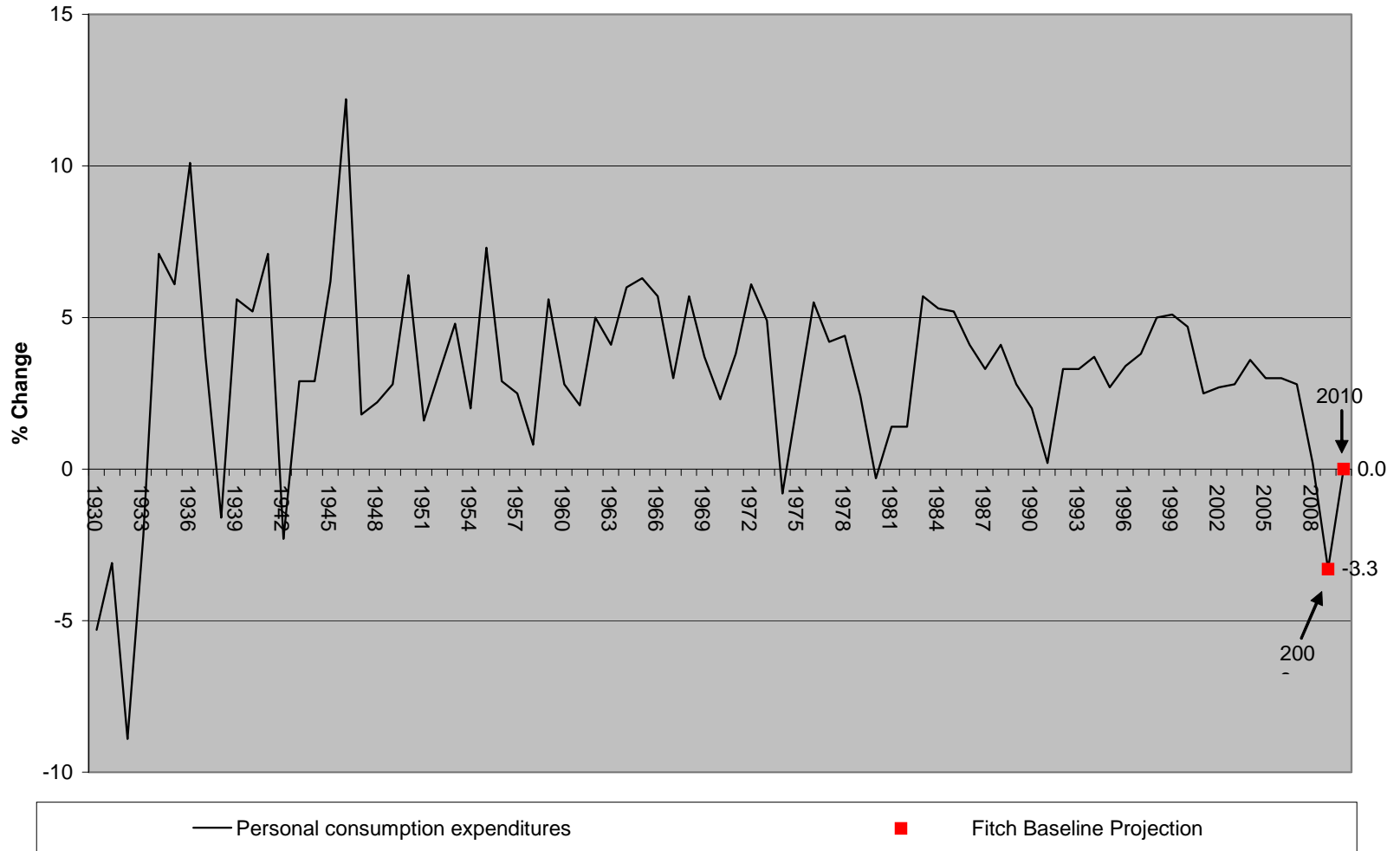


**Average Annual US Unemployment Rate**





**Annual Change in Personal Consumption Expenditures**





## Very complex issues

- > Stock market hits new high -- what does this mean?
- > Is the housing market bottoming out? May be getting close.
- > Are we in a recovery? No – will take a while.
- > Will we have a double dip? Depends on the stimulus and world economy.
- > Unemployment to remain high for a while – will have an impact on personal consumption.



## **New Rating Considerations Financial issues**



## Financial Ratios

- > **Coverage** (How much cash flow cushion is there to pay the utility's fixed obligations?)
  - Debt Service Coverage.
  - Debt / Funds Available for Debt Service.
- > **Liquidity** (how much cash does the utility have relative to its operating expenses?)
  - Days cash on hand.
  - Days liquidity on hand (includes CP capacity & lines of credit).
  - **Free Liquidity to support variable rate debt.**
- > **Leverage** (how much equity has the utility built up relative to its asset base?)
  - Equity / Capitalization.
  - Debt / Funds Available for Debt Service.
- > **Other**
  - **Variable rate exposure as % of capitalization.**
  - Annual capital additions.
  - Five year capital improvement plan and financial projections.



## Texas v. the Nation

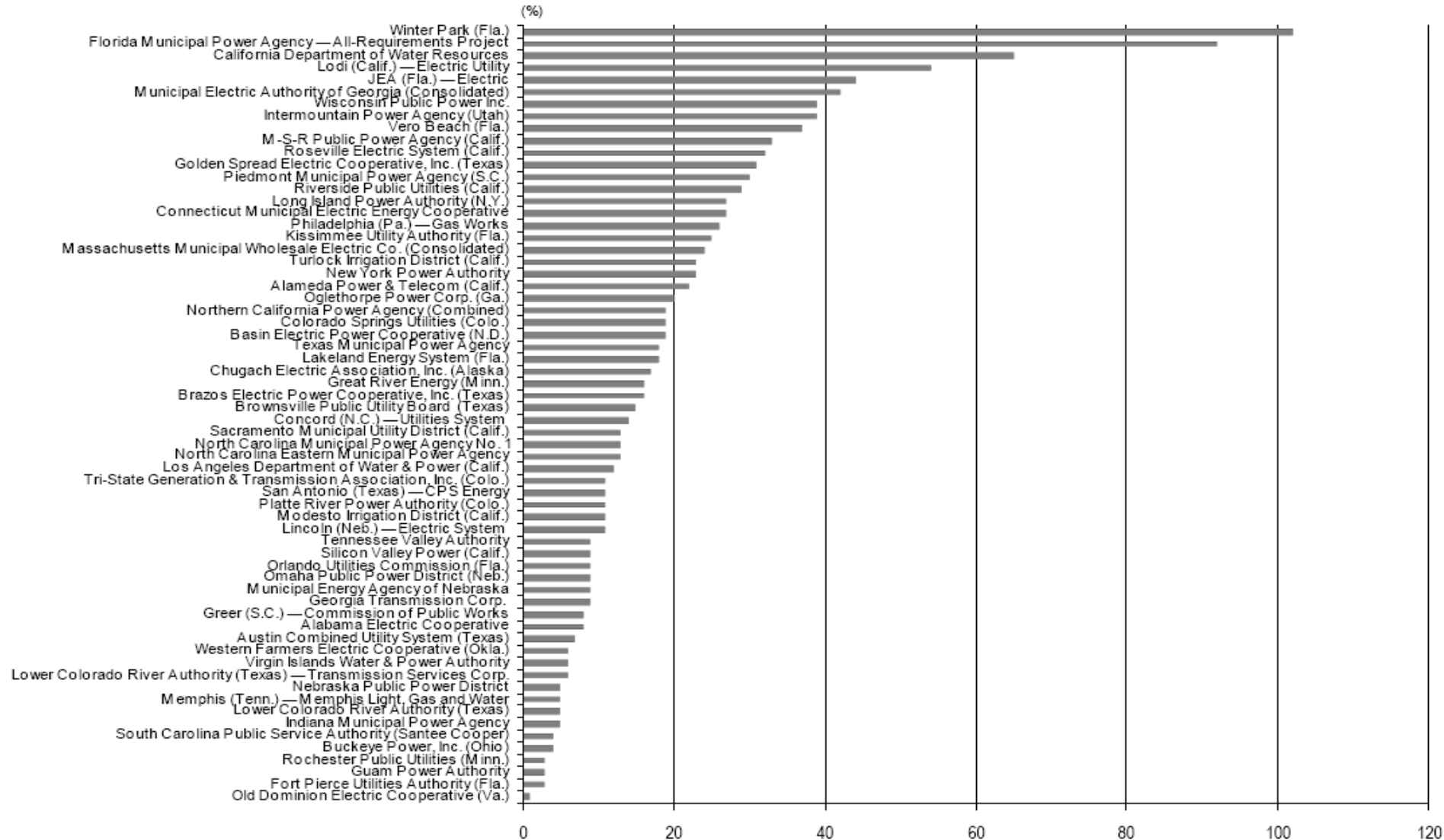
<i>Retail*</i>	<i>Debt-Service Coverage (x)</i>	<i>Equity/Total Capitalization (%)</i>	<i>Debt/FADS</i>	<i>Days Cash on Hand</i>
Texas	2.81	63	4.1	81
U.S.	2.35	46	4.4	78
 <i>Wholesale**</i>				
Texas	1.34	16	9.6	27
U.S.	1.25	13	7.7	65

*\*Average retail rating is 'A+' for both Texas and the U.S.*

*\*\*Average wholesale ratings for Texas and the U.S. is 'A-' and 'A' respectively.*



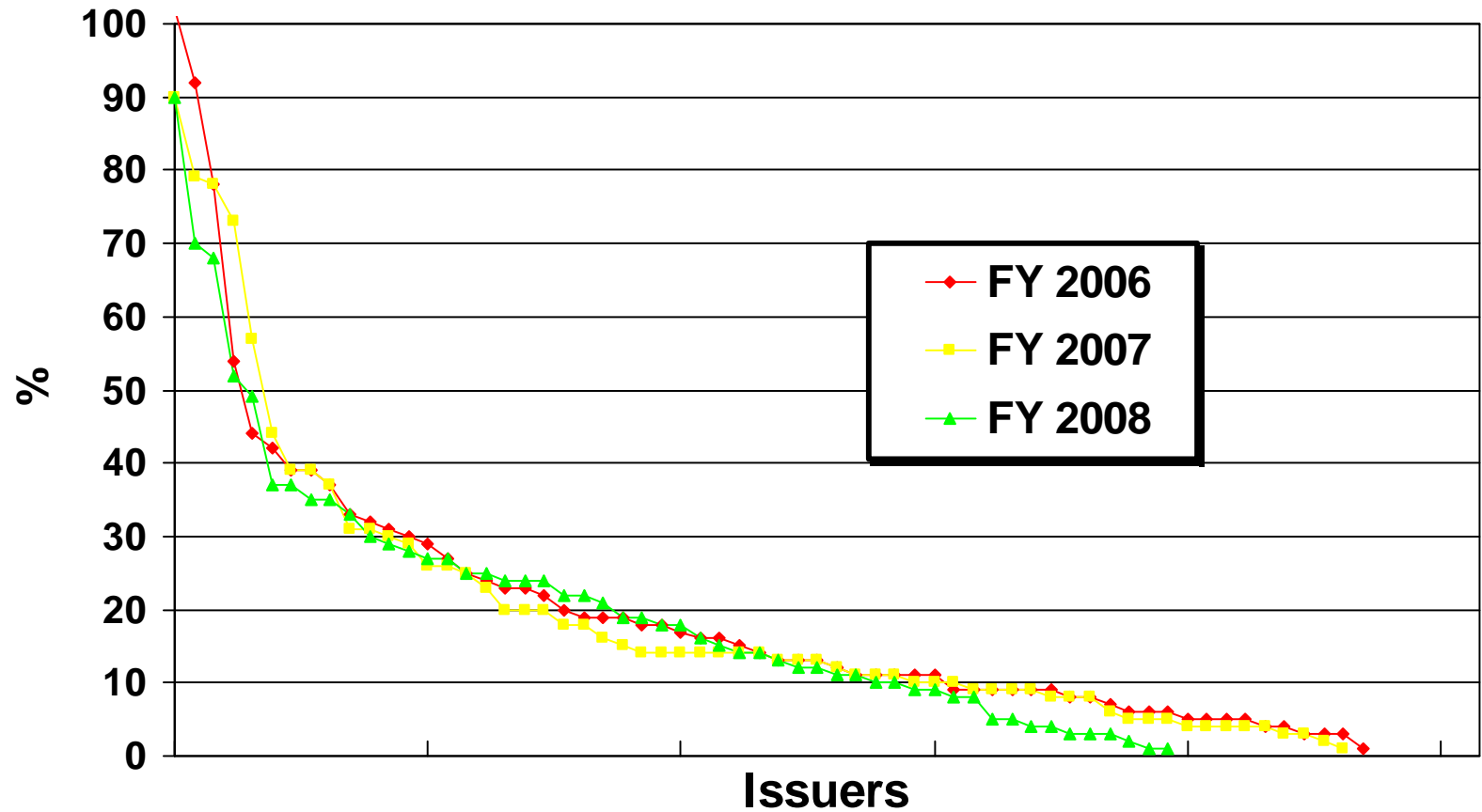
**Gross Variable-Rate Debt/Capitalization**



Source: Fitch Ratings.



## Gross Variable Rate Debt/ Capitalization (%) (2006-2008)





## Keep your Eye on the Financial Ball

### > What should you plan for next?

- Is this the new Normal? Market dislocations, credit spreads, bank bond stress, more liquidity, etc.
- Federal Debt and the Impact on Interest Rates
- Headline Risk Effect on Investors – who's buying your bonds (taxable/Tax-exempt)?
- How do you get out of your ARS
- Credit Enhancement Market Taking Years to Normalize
- How much is too much for new generation? \$3000 kw or \$11,000/kw



## **New Rating Considerations Environmental Issues**



## **Greenhouse Gas/Carbon Reductions CO<sub>2</sub> Regulation: Not if but when**

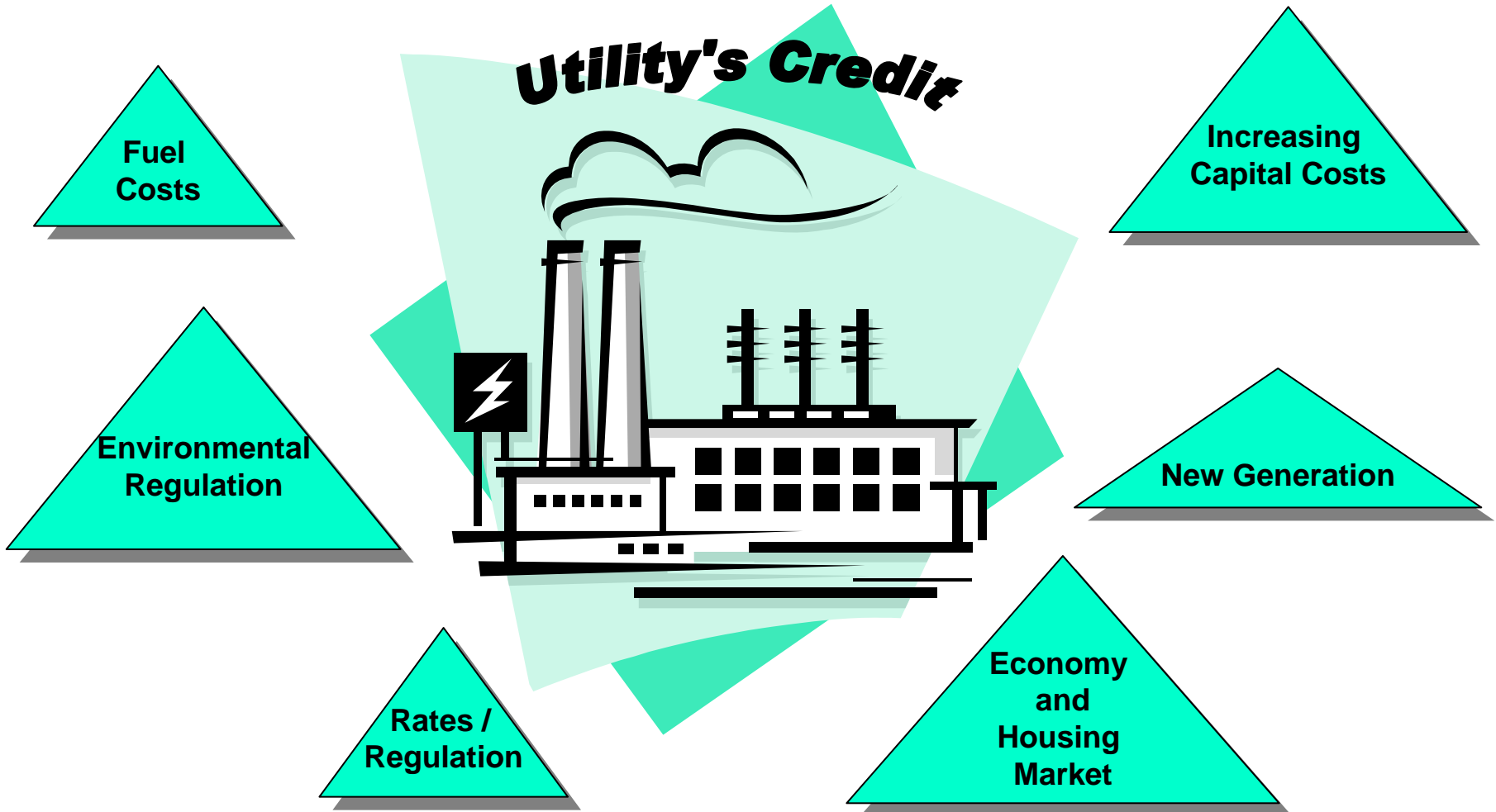
- > Fitch believes that there will be a carbon law at the federal level. But who will pay? TBD.**
- > Increasing number of state regulators are placing a cost on carbon in rate making proceedings.**
- > More traditional Wall Street investors are now looking at carbon issues and how it will impact the utilities they invest in.**



## Public Power Outlook



## For a Stable Sector – The issues are very complex

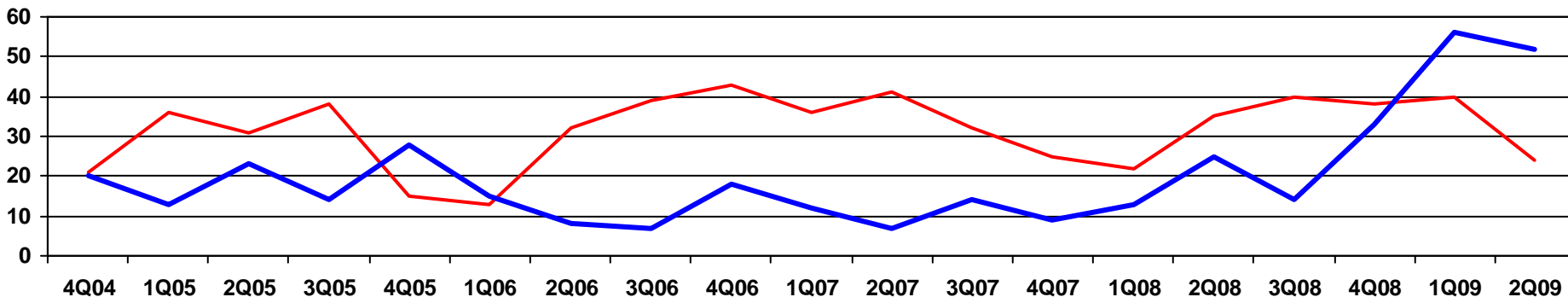




# Fitch Rating *Actions* US Public Finance and Public Power

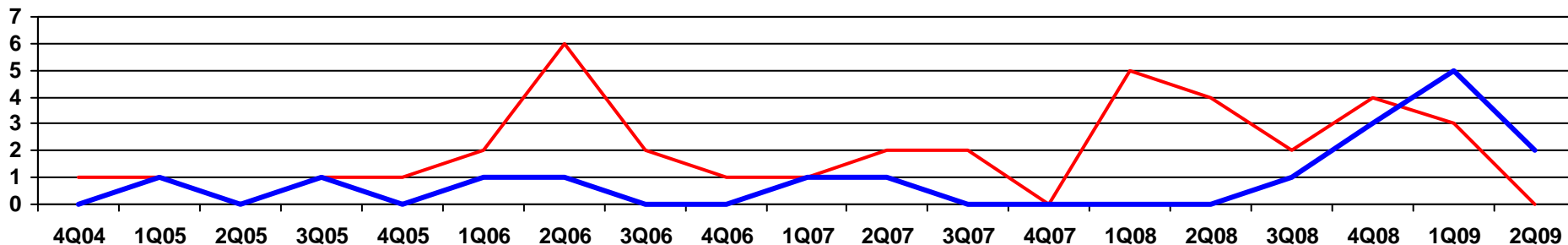
US Public Finance Upgrades and Downgrades 2004 Q4 - 2009 Q2

— Upgrades — Downgrades



US Public Power Upgrades and Downgrades 2004 Q4 - 2009 Q2

— Upgrades — Downgrades





## Fitch Public Power Credit Outlook for 2009

- > The Outlook into 2009 is Stable with near-term pressures on individual credits that could result in increased negative rating actions.
- > The longer term Outlook reflects increasing negative cost pressures.
- > While our near-term outlook for the sector is stable, if current pressures such as limited capital market access together with increasing economic stress that persists long into 2009 a change in Outlook to Negative may be warranted.
- > Public power has historically proven itself to be a very solid investment despite past complexities facing the industry such as deregulation, fuel price volatility, and the corporate credit crisis.



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