[Bond Case Briefs]

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[Fitch: US Tax Bill Could Pressure Power Sector.]

Fitch Ratings-New York-30 January 2018: The Tax Cuts and Jobs Act will pressure participants in the US power sector in different ways in the short run, Fitch Ratings says. Passing federal income tax reductions and returning excess accumulated deferred income taxes (ADIT) to customers through lower investor-owned utility rates could raise competitive pressures for public power and cooperatives, and be a credit negative for some corporate power issuers, including regulated utilities and utility holding companies.

The trend toward lower customer rates has already begun. Investor-owned utilities and their respective rate regulators in Illinois, Massachusetts and Oregon have already announced plans to direct their savings from the lower corporate taxes to ratepayers, rather than shareholders. This week, regulators and some state attorneys general sent a letter to the Federal Energy Regulatory Commission asking FERC to make a similar change.

We believe public power and cooperative utilities could face competitive rate pressure in some markets. However, that is not likely to be a material credit factor. Service areas with direct competition or where regional sensitivity to investor-owned utility rates exists will be the most exposed.

In general, the growth in US household income has made electricity costs a more affordable portion of a consumer's budget, easing rate pressures for most public power and cooperative issuers. Going forward, favorable operating conditions (including low natural gas prices and interest rates) and modest economic growth (Fitch forecasts at 2.5% in 2018 and 2.2% in 2019) should help sustain the public power and cooperative sector trend of improving financial metrics.

The impact on corporate ratings could be mitigated if state regulators balance the aim to lower rates for customers with the creditworthiness of utilities in their purview. The impact on corporate ratings will also depend on the amount of headroom an issuer has to absorb the leverage creep. Holding companies are more vulnerable given the elevated leverage profile for many driven by past debt-funded acquisitions.

Over the long run, the tax change's impact on public power issuers is likely to be negligible as the potential competitive pressures are only likely in the short term. The tax change could also be mildly positive for corporate issuers over the long run. We do not anticipate a long-term impact on the public power and cooperative sector.