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Tennessee Valley Authority And Its Local Power Companies: A Symbiotic Relationship Underpins Credit Quality

Key Takeaways

- Tennessee Valley Authority (TVA) provides power to 153 local power companies (LPCs), 16 of which are rated by S&P Global Ratings. In evaluating LPC credit fundamentals, we consider the profile of TVA's generating assets, fuel mix, wholesale rates, and fixed cost of power; key LPC enterprise attributes include largely residential bases, below-average income levels, and competitive retail rates.
- The TVA LPCs rated by S&P Global Ratings have a modal rating of 'A+', mirroring the modal rating for the universe of public power utilities that we rate. Since 2018, we have lowered the ratings on 10 of the 16 LPCs. The bulk of the rating actions were taken following the revision of our retail electric and gas criteria in September 2018; only two have been taken in the past year, suggesting stabilizing credit quality.
- TVA's service area is delimited by the TVA Act, and the anti-cherry-picking provision provides a barrier to entry for other suppliers by preventing the use of the TVA transmission system to serve LPC load. Nevertheless, TVA's largest LPC, Memphis Light, Gas and Water (MLGW), which is on the periphery of the TVA service area, is considering other power supply options. If MLGW leaves TVA, this could lead to higher fixed costs for the remaining LPCs.
- We view TVA as a credit-supportive wholesale power provider to its LPCs, as evidenced by its offer of longer-term contracts at a discount, its goal of stabilizing wholesale rates, its efforts to provide financial and operational flexibility to the LPCs, and its provision of temporary power bill credits during the COVID-19 pandemic.

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