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Fitch: Fracking Water Supply Risk Would Fall on U.S. Utilities.

Fitch Ratings-New York-02 May 2014: Despite more stringent state laws, water and sewer utilities must comply with EPA water regulations and would bear much of the financial burden if hydrofracking (fracking) operations lead to contamination of a water supply, Fitch Ratings says. This week the state of Michigan joined a growing list of states that require disclosure of the chemicals injected into the ground during fracking processes.

State regulations require oil and gas companies to disclose the chemicals used for fracking. However the utilities are subject to federal disclosure laws that allow companies to claim trade-secrets exemption. Even if the chemicals used for fracking are disclosed, they may not be on the EPA's list of regulated contaminants. As water utilities are ultimately responsible for complying with EPA regulations for monitoring, treating and delivering water that is safe for public consumption, they would bear much of the financial, operational and regulatory burden of safeguarding water that could potentially be contaminated by fracking operations.

In this scenario, Fitch would expect a serious blow to a utility's revenues, with losses concurrent with other growing direct and indirect costs. This would lead to debt service coverage reductions, liquidity strains and possibly the need for additional leverage.

In the coming days we will release a report entitled "Fracking: Possible Implications to Water & Sewer Credits" that will provide more detail on this possible scenario and illuminate the risks for bondholders.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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