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S&P U.S. Public Power 2015 Outlook: Despite Several Looming Issues, Credit Quality Should Remain Stable.

Although the U.S. public power sector is likely to hit some bumps in 2015, Standard & Poor's Ratings Services believes credit quality overall will remain solid and ratings will stay stable for the sector. Despite some exceptions — such as the Puerto Rico Electric Power Authority in 2014 — we believe public power's general rate-setting autonomy and a lack of competition for retail customers will underpin the sector's credit quality. Our outlook incorporates the following expectations:

- Fuel prices, particularly for natural gas, will remain at low levels.
- The economy will expand manageably, enabling utilities to absorb growth without creating undue capital and operational burdens.
- Public power utilities will continue to effectively respond to regulatory measures the U.S. Environmental Protection Agency (EPA) has imposed in the past five years.

Despite this stable outlook, challenges remain. Some of these are broad and more long-term, affecting many utilities. They include the following:

- New EPA regulations targeting carbon emissions at existing power plants will likely weigh more heavily on carbon-intensive utilities than previous measures, and they could affect grid reliability.
- We expect fuel diversification to continue declining, exposing the industry to fuel price volatility.
- Aggressive budgeting of revenue from surplus energy sales might return, weakening financial metrics stressing retail rates if margins fail to materialize.

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09-Jan-2015