Fitch: Public Power Riding U.S. Economic Recovery and Low Rates.

Fitch Ratings-New York-09 June 2015: Stronger cash operating earnings and lower interest costs are likely to sustain improvements in debt service coverage for public power and electric cooperative issuers, Fitch Ratings says. Stronger earnings are likely being driven by higher economic activity, timely rate increases and improved rate design. The sector's low exposure to variable rate debt (9% of total debt for Fitch-rated issuers) should further protect coverage metrics in the event of higher interest rates.

Wholesale and retail electric systems in all three measured rating categories ('AA', 'A' and 'BBB/BB') reported improved coverage medians for the first time since Fitch began the U.S. Public Power Peer Study in 2013. Coverage medians for retail systems, after considering transfers and purchased power obligations, also improved in all three rating categories. Debt service coverage, as measured by the Fitch Peer Study, began to improve in 2013 for many public power issuers following a period of weakness that began in 2009.

Leverage medians for 'AA' and 'A' rated retail systems were lower in 2014. However, higher leverage medians for 'AA' and 'A' rated wholesale systems will likely limit future upward rating actions, suggesting that the improvements in coverage may be more attributable to lower interest charges than improved operating margins for many issuers. We believe these metrics reflect a trend of higher investment by wholesale suppliers on behalf of member retail systems and increased cash funding of capital expenditures by electric distributors.

The results also show that liquidity ratios remain relatively stable and very robust for issuers rated in the 'A' and 'AA' categories. The strong liquidity metrics in recent years are likely driven in part by slower growth in construction and capital investment, as evidenced by historically low ratios of capital expenditures to depreciation. The downward trend in capital expenditures, which began in 2009, likely reflects slower sales growth and the deferral of certain capital projects.

Fitch's "U.S. Public Power Peer Study" and "U.S. Public Finance – Public Power – Fitch Analytical Comparative Tool (FACT) – June 2015" are available on our website www.fitchratings.com.

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Additional information is available on www.fitchratings.com.

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.