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Fitch: Credit Impact of Proposed Utility Sales Generally Limited.

Fitch Ratings-Austin-22 February 2018: Discussions concerning the sale of publicly owned utilities arise periodically in the utility sector, according to Fitch Ratings. There are a number of discussions currently occurring at the federal, state and municipal level. At present, there is no credit impact resulting from the sale discussions for any of these credits. In most cases, Fitch views the privatization of governmental utilities as credit neutral based on the expectation that existing debt obligations will be repaid in full or legally defeased as a condition of the sale. Furthermore, in Fitch's view these proposed transactions are not part of a growing trend but rather the result of specific objectives and priorities of the respective governmental owners.

Consideration of utility sales is often prompted by a specific circumstance such as quality of service issues, high electric rates or the need for cash by the governmental owner. However, few utility sales persist through to completion in the public sector. The reasons the proposals falter vary but it is a time consuming and often expensive process to unwind power purchase contracts and debt obligations. Potential transactions must consider the impact to ratepayers and are not compelling unless ratepayer benefit can be credibly anticipated. Finally, political approval from governing bodies or voter approval is typically required. Fitch views most discussions of asset sales as unlikely to result in a final divestiture of the utility.

Tennessee Valley Authority, TN and Bonneville Power Administration, OR

The 2019 Presidential Budget includes a proposal to sell federal transmission assets of the Tennessee Valley Authority (TVA; AAA/Stable) and Power Marketing Administrations (PMAs), including those of the Bonneville Power Administration (Bonneville; AA/Negative). The key credit consideration in the event of a partial sale of assets is the resulting revenue profile of the remaining assets in relation to a potentially lower leverage position, depending on the ultimate use of sale proceeds. The proposal to sell federal transmission assets has been included in budget proposals offered by prior administrations of both parties. Any final adoption of the proposal will require congressional approval.

If Congress does approve the divestiture of transmission assets only, Fitch believes there would likely be no credit impact to TVA based on the assumption that any remaining debt would continue to be repaid from revenues generated by the balance of assets and the implicit governmental guarantee supporting TVA's current 'AAA' rating. Fitch notes that in the case of a full divestiture of TVA assets, TVA's bond resolution requires either the full repayment or provision for the continued payment of principal and interest.

Similarly, in Bonneville's situation, the potential sale of Bonneville's transmission business line would be evaluated in the credit context of the power business line's ability to support remaining obligations. Since the transmission system has historically been 100% debt financed, the planned use of any sale proceeds would be a material consideration as to the ultimate leverage profile of the remaining utility. Fitch's timeline for reflecting credit implications will be dependent on affirmative legislative action or compelling legislative momentum towards acceptance of the proposal and details regarding final treatment of related debt.

The President's 2019 budget proposal also raised the idea of PMAs being permitted to charge market rates for their services. Bonneville's power supply contracts with 125 preference customers extend through 2028. Fitch believes the contracts would postpone any movement away from cost based rate methodology through the contract term, even if this proposal gained legislative support.

South Carolina Public Service Authority (Santee Cooper), SC

The decision in July 2017 by Santee Cooper (A+/Stable) and South Carolina Electric & Gas Co. (SCE&G; BBB-/Rating Watch Evolving) to abandon construction of the Summer Nuclear Units 2 and 3 ignited controversy across the state and has drawn intense political scrutiny. The Governor has called for the sale of Santee Cooper in a stated effort to eliminate costs to ratepayers related to the $4.3 billion Santee Cooper spent at Summer Units 2 and 3. Discussions regarding the sale of Santee Cooper are occurring against the backdrop of various legislative proposals that include placing Santee Cooper's rate setting under Public Service Commission oversight and not allowing new rates or charges to be imposed for the repayment of costs related to Summer Units 2 and 3.

At present, Fitch continues to view the potential sale of Santee Cooper as credit neutral to bondholders given our expectation that any privatization would require the repayment or legal defeasance of all outstanding debt obligations ($8.1 billion as of September 2017. It remains unclear whether or not the sale will gain the required state legislative approval and whether a willing buyer will propose a satisfactory proposal that will be accepted by the state. Separate and distinct from the sale of the utility, legislative changes that impact Santee Cooper's independent rate authority could weaken credit quality.

Discussion Regarding Sale of JEA, FL

JEA (AA/Stable) is a combined electric, water and wastewater and chilled water utility located in Jacksonville, FL. JEA and its owner, the City of Jacksonville, are proceeding through an evaluation process regarding the sale of the utility. The undertaking does not appear to be driven by concerns such as poor quality of service or the need for cash at the city, but was prompted by the premise that the recent scope and pace of change in the utility market warrants a fresh analysis regarding whether or not JEA should remain a governmentally owned utility. Fitch believes the exercise is in very preliminary stages but that any ultimate sale would involve the full retirement of its over $4 billion in outstanding debt obligations as of Sept. 30, 2017.

Pending Sale of Vero Beach, FL

Vero Beach, FL (A+/Stable) is in the process of selling the city's electric system to Florida Power & Light, which is expected to occur in 2018, nearly 18 months after both parties signed the original letter of intent, and will include the full retirement of Vero Beach's approximately $20 million in outstanding debt.

The sale arose from a strong degree of customer dissatisfaction with Vero Beach's above average electric rates over a number of years. One of the complexities in reaching an agreement was the settlement of Vero Beach's participation in multiple power supply projects at Florida Municipal Power Agency (FMPA) with project-specific secured debt. While the process to complete the sale is a lengthy one, the majority of the many steps necessary have already been achieved, including approval from FMPA's nearly 20 separate participant city commissions and the required transfer and assignment of Vero Beach's obligations under the various FMPA power sales contracts.

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