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Fitch Ratings Finalizes U.S. Public Power Rating Criteria

Link to Fitch Ratings' Report(s): [U.S. Public Power Rating Criteria](#)

Fitch Ratings-New York-03 April 2019: Fitch Ratings has published the final, revised version of its sector-specific criteria report titled "U.S. Public Power Rating Criteria". This follows Fitch's June 14, 2018 exposure draft outlining various proposed changes to the criteria for which Fitch sought market feedback. Fitch's previous criteria report from May 18, 2015 and the noted exposure draft have both been retired.

Fitch has also published a special report titled "[Feedback Report: U.S. Public Power Rating Criteria](#)" that reviews the market feedback received on the noted exposure draft and Fitch's responses. Fitch made no substantive changes to its exposure draft as a result of market feedback. However, Fitch did include select changes to key rating drivers and the scenario analysis tool in the final criteria report. Primary changes to the rating criteria incorporated in the exposure draft and retained in the final revision are described below.

PRIMARY CRITERIA CHANGES

- Introduction of three key rating factors: revenue defensibility, operating risk, and financial profile;
- Individual assessments for each key rating factor;
- Financial profile alignment with business profile in rating assessment;
- Forward looking consideration of the impact of existing or needed capital investments that may increase financial leverage;
- Introduction of FAST, an issuer specific scenario analysis tool measuring the effect of demand stress on revenue, operating expenses, cash flow and rates.

RATINGS IMPACT

Fitch does not expect the proposed criteria revisions to trigger widespread rating changes, nor will the implementation curtail or influence normal rating migration. Within the next week, Fitch plans to publish rating action commentary to designate various ratings that could potentially be affected by the changes in the criteria as Under Criteria Observation (UCO). However, not all of the ratings designated as UCO will necessarily experience rating changes.

Rating changes will most likely reflect the criteria's heightened emphasis on leverage through the cycle, with upgrades reflecting relatively low leverage, and downgrades resulting from the recognition of higher leverage and/or elevated operating risk. In addition, Fitch also expects that debt ratings of issuers may be designated as UCO, where additional new information required under the revised criteria is currently unavailable and further analysis is necessary to assess the effect of the criteria on the rating. Overall, Fitch estimates fewer than 10% of the ratings covered by the criteria will be affected over time, with a roughly equal mix of upgrades and downgrades.

Fitch will review all of the ratings designated as UCO as soon as practical, but designation must be resolved within six months.

For more information, the full reports titled “U.S. Public Power Rating Criteria”, “Feedback Report: U.S. Public Power Rating Criteria”, “FAST Public Power – Fitch Analytical Stress Test V 1.1.1 and “FAST Public Power – Fitch Analytical Stress Test, Description and Model Foundation” are available at www.fitchratings.com.

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