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S&P: Amid Price Volatility, Cost Recovery And Risk Management Are Key To Rating Stability For U.S. Municipal Gas Utilities

Key Takeaways

- Under ordinary circumstances, municipal gas utilities effectively use pass-through mechanisms to recover volatile and sometimes high costs of the commodity they sell, which helps preserve credit ratings. The rating distribution for U.S. municipal gas utilities (with most ratings in the 'A' category) reflects the strength of management's tools to mitigate price volatility.
- Extreme weather, such as this past February's polar vortex, can exacerbate natural gas price volatility, result in extreme unbudgeted costs for U.S. Municipal Gas Utilities, and affect credit quality.
- Given the rise in natural gas prices this fall, the use of risk management strategies by many municipal gas utilities help shield utilities and their customers from price volatility. Examples of these strategies include the use of cost adjustment mechanisms, physical gas storage or other hedging practices, and maintenance of sufficient liquidity.

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