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U.S. And Canadian Regulatory Jurisdictions Continue To Bolster Utilities' Credit Quality

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Sector **Oil & Gas, Oil & Gas, Corporates, Infrastructure & Utilities, Utilities & Power**
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We conduct periodic assessments of each regulatory jurisdiction in the U.S. and Canada that has the presence of a rated utility, or operations of a rated entity to provide analysts with information for reference in determining the regulatory advantage, or regulatory risk of utilities.

Regulatory advantage is a heavily weighted factor in our analysis of a regulated utility's business risk profile. Our analysis covers quantitative and qualitative factors, focusing on regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation.

Sorting Through Regulatory Jurisdictions In The U.S. And Canada

We've updated our assessments of regulatory jurisdictions since our commentary "U.S. And Canadian Regulatory Jurisdictions Support Utilities' Credit Quality--But Some More So Than Others," published June 25, 2018. We've noted limited change in the U.S. jurisdictions' approaches to regulation over the past months, and our assessments of the Canadian provinces have stayed the same. Below we provide our current snapshot view of each regulatory jurisdiction in the U.S. and Canada (see the table listing the jurisdictions alphabetically within each category, and the maps of the U.S. and Canada indicating our updated assessments of regulatory jurisdictions). We group the jurisdictions based on quantitative and qualitative factors, focusing on regulatory stability, tariff-setting procedures and design, financial stability, and regulatory independence and insulation and the collective opinions expressed in the regulatory advantage determinations made in rating committees for approximately 225 U.S. and 30 Canadian utilities we rate.

The category titles indicate one other important point regarding utility regulation and its effect on ratings. For the purposes of this commentary, we denote all categories as "credit supportive". To one degree or another, all utility regulation sustains credit quality when compared with the rest of corporate and infrastructure ratings at S&P Global Ratings. The presence of regulators, no matter where in the spectrum of our assessments, reduces business risk and generally supports utility ratings. For these jurisdictions, we describe all of them in a range from "credit supportive" to "most credit supportive" and these designations vary only in degree rather than in kind. The table and maps below show our current assessments of regulatory jurisdictions.

Assessing U.S. And Canadian Regulatory Jurisdictions

Regulatory Jurisdictions For Utilities Among U.S. States And Canadian Provinces

Credit supportive	More credit supportive	Very credit supportive	Highly credit supportive	Most credit supportive
Hawaii	Arizona	Alaska	Arkansas	Alabama
Mississippi	California	Connecticut*	Georgia	Alberta
New Mexico	District of Columbia	Delaware	Indiana	British Columbia
Prince Edward Island	Maryland	Idaho	Kansas	Colorado
	Montana	Illinois	Louisiana	FERC (Electric)
	New Jersey	Missouri	Maine	Florida
	Oklahoma	Nebraska	Massachusetts	Iowa
	South Carolina	Nevada§	Minnesota	Kentucky
	Washington	New Orleans	New Hampshire	Michigan
		New York	Newfoundland & Labrador	North Carolina
		Ohio	North Dakota	Nova Scotia
		Rhode Island	Oregon	Ontario
		South Dakota	Pennsylvania	Quebec

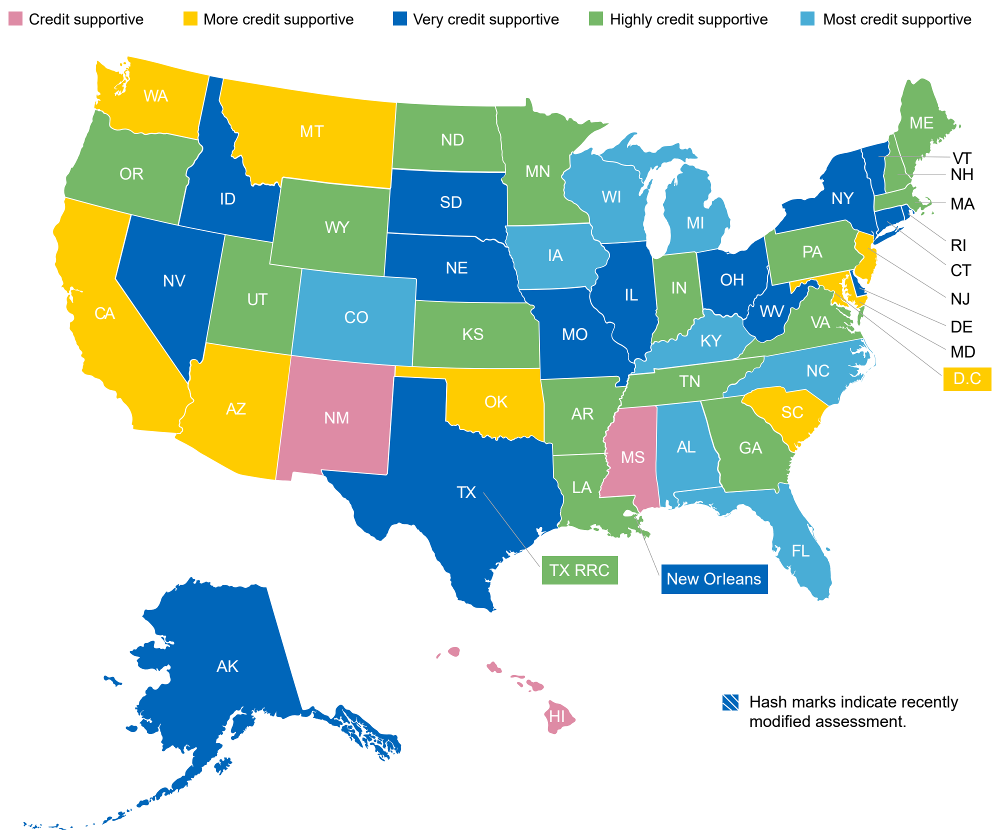
Texas	Tennessee	Wisconsin
Vermont§	Texas RRC	
West Virginia	Utah	
	Virginia	
	Wyoming	

*Assessment raised. §Assessment lowered. Source: S&P Global Ratings.

Mapping the regulatory jurisdictions

For jurisdictions assessed in the maps below, we have delineated the degree of credit support using light blue as "most credit supportive" and pink as "credit supportive" with various colors used to delineate credit supportiveness between these categories. (We currently don't have assessments on some of the Canadian provinces.) The different assessments offer some granularity in our thinking about these jurisdictions' approach to regulation. Sometimes it will be due to developments such as the weakening trends in the regulatory jurisdictions of Nevada and Vermont. Other times it will be from strengthening trends such as the regulatory jurisdiction of Connecticut. Often it simply designates a stable jurisdiction that is slightly better or worse than its closest peers from a credit-quality perspective.

S&P Global Ratings U.S. Utility Regulatory Assessments



As of October 2018. Source: S&P Global Ratings.

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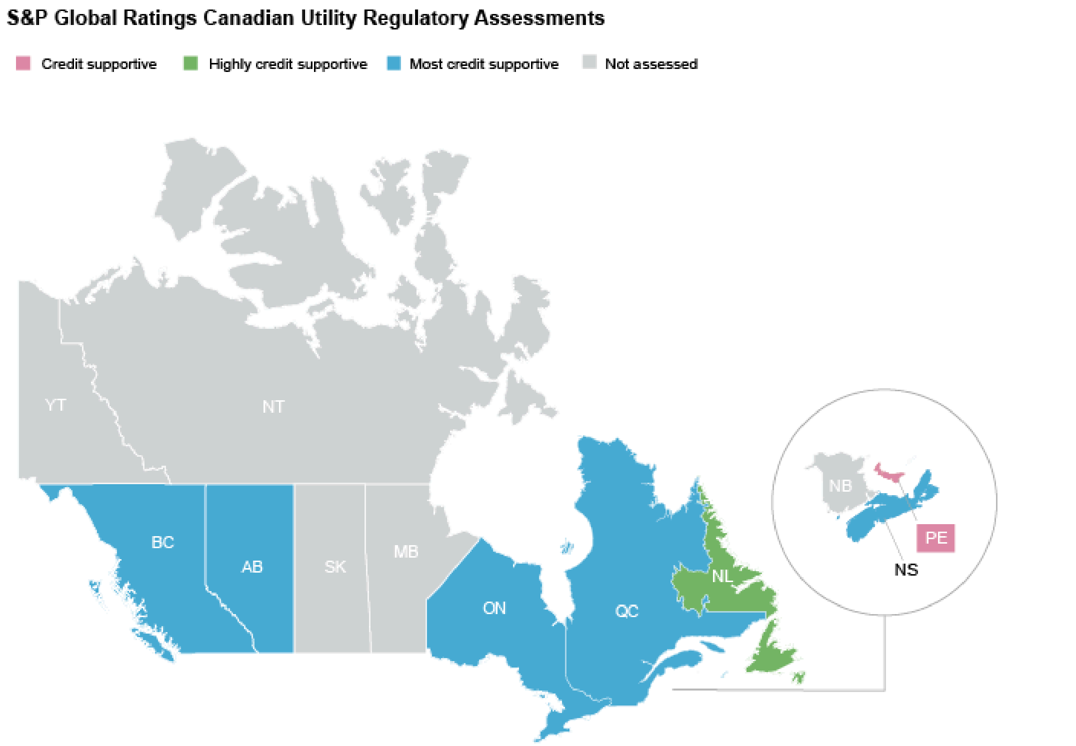

As of October 2018. Note: currently there are no jurisdictions considered in the "more credit supportive" or "very credit supportive" categories. Source: S&P Global Ratings.

Recent Regulatory Assessment Revisions

We periodically evaluate regulatory jurisdictions and may determine that there has been a shift in terms of support for credit quality. Based on recent developments, we have determined that the following jurisdictions have experienced shifts around credit supportiveness.

Alabama

Although we have not revised our regulatory jurisdiction assessment on Alabama, which we consider to be "most credit supportive," we believe the jurisdiction has marginally weakened within this category. We've observed some slight modification in in tariff-setting procedures and design in general in the state. For Alabama Power Co., there is a two-year moratorium in 2019 and 2020 that restricts any upward rate adjustments under the company's Rate Stabilization Equalization mechanism, increasing the chance for regulatory lag. If unexpected costs arise, this restriction could limit the company's financial flexibility to recover such costs.

Connecticut

We revised our regulatory jurisdiction assessment on Connecticut to "very credit supportive" from "more credit supportive," reflecting our opinion that there has been improvement in the jurisdiction's tariff-setting procedures. This should provide for strengthened recoverability of operating and capital costs. Recently, Connecticut Light & Power Co. received a rate increase along with a capital tracker for capital expenditures and for capital additions for system resiliency and grid modernization. This should provide for more timely cost recovery of at least a portion of capital spending above that already in the utility's rates.

Nevada

We revised our regulatory jurisdiction assessment on Nevada to "very credit supportive" from "highly credit supportive" because regulatory independence and insulation has weakened in the state where the market framework and energy policies may be less supportive of long-term financing of utilities. Greater visibility of utility issues in the political process is evident since the introduction of a ballot initiative in 2016, the Energy Choice Initiative, for the first of two votes and now again in 2018 for the second and final vote. In addition, a ballot initiative regarding renewable energy of 50% by 2030 further elevates into the political process utility-related issues such as electricity generation. If the majority of Nevada's voters endorse the Energy Choice Initiative in 2018, the legislature would be required to establish a legal framework for electricity choice by July 2023. The heightened politicization of utility policies in the state, including long-term energy generation planning, creates some uncertainty about investing in the state's utilities over the long run.

Vermont

We revised our regulatory jurisdiction assessment on Vermont to "very credit supportive" from "highly credit supportive" reflecting a modest weakening in the consistency of the regulatory framework, which could potentially result in greater "regulatory lag" (i.e., the relationship between approved rates and the age of the costs used to set those rates) related to cost recovery. Green Mountain Power Corp. reverted to a traditional regulatory framework after operating under a comprehensive alternative regulation plan for years. Under the alternative rate plan, the company's authorized return on equity was adjusted annually using a formula tied to U.S. Treasury bond yields. We expect the traditional framework to be more procedural, and negotiated among various parties, signaling the possibility of delayed cost recovery.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Related Research

- U.S. And Canadian Regulatory Jurisdictions Support Utilities' Credit Quality--But Some More So Than Others, June 25, 2018
- Assessing U.S. Investor-Owned Utility Regulatory Environments, Aug. 10, 2016

This report does not constitute a rating action.

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