Exhibit No.___(BNW-4)
Docket No. UE-09___
Witness: Bruce N. Williams

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

| | | |
|---|---|---|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br><br>Complainant,<br><br>vs.<br><br>PACIFICORP dba Pacific Power<br><br>Respondent. | )<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>) | Docket No. UE-09______ |

**PACIFICORP**

**EXHIBIT OF BRUCE N. WILLIAMS**

**May 12, 2003 Standard & Poor's Publication**
**"Buy vs. Build: Debt Aspects of Purchased-Power Agreements"**

**February 2009**

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# Standard & Poor's UTILITIES & PERSPECTIVES

**GLOBAL UTILITIES RATING SERVICE**



STANDARD & POOR'S

# "Buy Versus Build": Debt Aspects of Purchased-Power Agreements

Standard & Poor's Ratings Services views electric utility purchased-power agreements (PPA) as debt-like in nature, and has historically capitalized these obligations on a sliding scale known as a "risk spectrum." Standard & Poor's applies a 0% to 100% "risk factor" to the net present value (NPV) of the PPA capacity payments, and designates this amount as the debt equivalent.

While determination of the appropriate risk factor takes several variables into consideration, including the economics of the power and regulatory treatment, the overwhelming factor in selecting a risk factor has been a distinction in the likelihood of payment by the buyer. Specifically, Standard & Poor's has divided the PPA universe into two broad categories: take-or-pay contracts (TOP; hell or high water) and take-and-pay contracts (TAP; performance based). To date, TAP contracts have been treated far more leniently (e.g., a lower risk factor is applied) than TOP contracts since failure of the seller to deliver energy, or perform, results in an attendant reduction in payment by the buyer. Thus, TAP contracts were deemed substantially less debt-like. In fact, the risk factor used for many TAP obligations has been as low as 5% or 10% as opposed to TOPs, which have been typically at least 50%.

Standard & Poor's originally published its purchased-power criteria in 1990, and updated it in 1993. Over the past decade, the industry underwent significant changes related to deregulation and acquired a history with regard to the performance and reliability of third-party generators. In general, independent generation has performed well; the likelihood of nondelivery—and thus release from the payment obligation—is low. As a result, Standard & Poor's believes that the distinction between TOPs and TAPs is minimal, the result being that the risk factor for TAPs will become more stringent. This article reiterates Standard & Poor's views on purchased power as a fixed obligation, how to quantify this risk, and the credit ramifications of purchasing power in light of updated observations.

### Why Capitalize PPAs?

Standard & Poor's evaluates the benefits and risks of purchased power by adjusting a purchasing utility's reported financial statements to allow for more meaningful comparisons with utilities that build generation. Utilities that build typically finance construction with a mix of debt and equity. A utility that leases a power plant has entered into a debt transaction for that facility; a capital lease appears on the utility's balance sheet as debt. A PPA is a similar fixed commitment. When a utility enters into a long-term PPA with a fixed-cost component, it takes on financial risk. Furthermore, utilities are typically not financially compensated for the risks they assume in purchasing power, as purchased power is usually recovered dollar-for-dollar as an operating expense.

As electricity deregulation has progressed in some countries, states, and regions, the line has blurred between traditional utilities, vertically integrated utilities, and merchant energy companies, all of which are in the generation business. A common contract that has emerged is the tolling agreement, which gives an energy merchant company the right to purchase power from a specific power plant. (see "Evaluating Debt Aspects of Power Tolling Agreements," published Aug. 26, 2002). The energy merchant, or toller, is typically responsible for procuring and delivering gas to the plant when it wants the plant to generate power. The power plant operator must maintain plant availability and produce electricity at a contractual heat rate. Thus, tolling contracts exhibit characteristics of both PPAs and leases. However, tollers are typically unregulated entities competing in a competitive marketplace. Standard & Poor's has determined that a 70% risk factor should be applied to the NPV of the fixed tolling payments, reflecting its assessment of the risks borne by the toller, which are:

- Fixed payments that cover debt financing of power plant (typically highly leveraged at about 70%),
- Commodity price of inputs,
- Energy sales (price and volume), and
- Counterparty risk.

### Determining the Risk Factor for PPAs

Alternatively, most entities entering into long-term PPAs, as an alternative to building and owning power plants, continue to be regulated utilities. Observations over time indicate the high likelihood of performance on TAP commitments and, thus, the high likelihood that utilities must make fixed payments. However, Standard & Poor's believes that vertically integrated, regulated utilities are afforded greater protection in the recovery of PPAs, compared with the recovery of fixed tolling charges by merchant generators. There are two reasons for this. First, tariffs are typically set by regulators to recover costs. Second, most vertically integrated utilities continue to have captive customers and an obligation to serve. At a minimum, purchased power, similar to capital costs and fuel costs, is included in tariffs as a cost of service.

As a generic guideline for utilities with PPAs included as an operating expense in base tariffs, Standard & Poor's believes that a 50% risk factor is appropriate for long-term commitments (e.g. tenors greater than three years). This risk factor assumes adequate regulatory treatment, including recognition of the PPA in tariffs; otherwise a higher risk factor could be adopted to indicate greater risk of recovery. Standard & Poor's will apply a 50% risk factor to the capacity

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component of both TAP and TOP PPAs. Where the capacity component is not broken out separately, we will assume that 50% of the payment is the capacity payment. Furthermore, Standard & Poor's will take counterparty risk into account when considering the risk factor. If a utility relies on any individual seller for a material portion of its energy needs, the risk of nondelivery will be assessed. To the extent that energy is not delivered, the utility will be exposed to replacing this power, potentially at market rates that could be higher than contracted rates and potentially not recoverable in tariffs.

Standard & Poor's continues to view the recovery of purchased-power costs via a fuel-adjustment clause, as opposed to base tariffs, as a material risk mitigant. A monthly or quarterly adjustment mechanism would ensure dollar-for-dollar recovery of fixed payments without having to receive approval from regulators for changes in fuel costs. This is superior to base tariff treatment, where variations in volume sales could result in under-recovery if demand is sluggish or contracting. For utilities in supportive regulatory jurisdictions with a precedent for timely and full cost recovery of fuel and purchased-power costs, a risk factor of as low as 30% could be used. In certain cases, Standard & Poor's may consider a lower risk factor of 10% to 20% for distribution utilities where recovery of certain costs, including stranded assets, has been legislated. Qualifying facilities that are blessed by overarching federal legislation may also fall into this category. This situation would be more typical of a utility that is transitioning from a vertically integrated to a disaggregated distribution company. Still, it is unlikely that no portion of a PPA would be capitalized (zero risk factor) under any circumstances.

The previous scenarios address how purchased power is quantified for a vertically integrated utility with a bundled tariff. However, as the industry transitions to disaggregation and deregulation, various hybrid models have emerged. For example, a utility can have a deregulated merchant energy subsidiary, which buys power and off-sells it to the regulated utility. The utility in turn passes this power through to customers via a fuel-adjustment mechanism. For the merchant entity, a 70% risk factor would likely be applied to such a TAP or tolling scheme. But for the utility, a 30% risk factor would be used. What would be the appropriate treatment here? In part, the decision would be driven by the ratings methodology for the family of companies. Starting from a consolidated perspective, Standard & Poor's would use a 30% risk factor to calculate one debt equivalent on the consolidated balance sheet given that for the consolidated entity the risk of recovery would ultimately be through the utility's tariff. However, if the merchant energy company were deemed noncore and its rating was more a reflection of its stand-alone creditworthiness, Standard & Poor's would impute a debt equivalent using a 70% risk factor to its balance sheet, as well as a 30% risk-adjusted debt equivalent to the utility. Indeed, this is how the purchases would be reflected for both companies if there were no ownership relationship. This example is perhaps overly simplistic because there will be many variations on this theme. However, Standard & Poor's will apply this logic as

Table 1

### ABC Utility Co. Adjustment to Capital Structure

| | Original capital structure | | Adjusted capital structure | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Debt | 1,400 | 54 | 1,400 | 48 |
| Adjustment to debt | — | — | 327 | 11 |
| Preferred stock | 200 | 8 | 200 | 7 |
| Common equity | 1,000 | 38 | 1,000 | 34 |
| Total capitalization | 2,600 | 100 | 2,927 | 100 |

Table 2

### ABC Utility Co. Adjustment to Pretax Interest Coverage

| | | Original pretax interest coverage | | Adjusted pretax interest coverage | |
|---|---|---|---|---|---|
| Net income | 120 | | | | |
| Income taxes | 65 | 300 | | (300+33) | |
| Interest expense | 115 | 115 | = 2.6x | (115+33) | = 2.3x |
| Pretax available | 300 | | | | |

a starting point, and modify the analysis case-by-case, commensurate with the risk to the various participants.

**Adjusting Financial Ratios**

Standard & Poor's begins by taking the NPV of the annual capacity payments over the life of the contract. The rationale for not capitalizing the energy component, even though it is also a nondiscretionary fixed payment, is to equate the comparison between utilities that buy versus build—i.e., Standard & Poor's does not capitalize utility fuel contracts. In cases where the capacity and energy components of the fixed payment are not specified, half of the fixed payment is used as a proxy for the capacity payment. The discount rate is 10%. To determine the debt equivalent, the NPV is multiplied by the risk factor. The resulting amount is added to a utility's reported debt to calculate adjusted debt. Similarly, Standard & Poor's imputes an associated interest expense equivalent of 10%—10% of the debt equivalent is added to reported interest expense to calculate adjusted interest coverage ratios. Key ratios affected include debt as a percentage of total capital, funds from operations (FFO) to debt, pretax interest coverage, and FFO interest coverage. Clearly, the higher the risk factor, the greater the effect on adjusted financial ratios. When analyzing forecasts, the NPV of the PPA will typically decrease as the maturity of the contract approaches.

**Utility Company Example**

To illustrate some of the financial adjustments, consider the simple example of ABC Utility Co. buying power from XYZ Independent Power Co. Under the terms of the contract, annual payments made by ABC Utility start at $90 million in 2003 and rise 5% per year through the contract's expiration in 2023. The NPV of these obligations over the life of the contract discounted at 10% is $1.09 billion. In ABC's case, Standard & Poor's chose a 30% risk factor, which when multiplied by the obligation results in $327 million. Table 1 illustrates the adjustment to ABC's capital structure, where the $327 million debt equivalent is added as debt, causing ABC's total debt to capitalization to rise to 59% from 54% (48 plus 11). Table 2 shows that ABC's pretax interest coverage was 2.6x, without adjusting for off-balance-sheet obligations. To adjust for the XYZ capacity payments, the $327 million debt adjustment is multiplied by a 10% interest rate to arrive at about $33 million. When this amount is added to both the numerator and the denominator, adjusted pretax interest coverage falls to 2.3x.

**Credit Implications**

The credit implications of the updated criteria are that Standard & Poor's now believes that historical risk factors applied to TAP contracts with favorable recovery mechanisms are insufficient to capture the financial risk of these fixed obligations. Indeed, in many cases where 5% and 10% risk factors were applied, the change in adjusted financial ratios (from unadjusted) was negligible and had no effect on ratings. Standard & Poor's views the high probability of energy delivery and attendant payment warrants recognition of a higher debt equivalent when capitalizing PPAs. Standard & Poor's will attempt to identify utilities that are more vulnerable to modifications in purchased-power adjustments. Utilities can offset these financial adjustments by recognizing purchased power as a debt equivalent, and incorporating more common equity in their capital structures. However, Standard & Poor's is aware that utilities have been reluctant to take this action because many regulators will not recognize the necessity for, and authorize a return on, this additional wedge of common equity. Alternatively, regulators could authorize higher returns on existing common equity or provide an incentive return mechanism for economic purchases. Notwithstanding unsupportive regulators, the burden will still fall on utilities to offset the financial risk associated with purchases by either qualitative or quantitative means. ■

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# High Commodity Prices Bode Well For Stone Energy's Cash Flow

Independent oil and gas company Stone Energy Corp. (BB/Stable/—) is poised to generate strong free cash flow in 2003 as a result of very strong commodity prices recorded during the first quarter and the likelihood that they will remain higher than average for the remainder of the year. Based on Standard & Poor's Ratings Services commodity pricing assumptions for 2003, which is $24 per barrel for West Texas Intermediate crude oil and $4.00 per thousand cubic feet equivalent (mcfe) for Henry-Hub-traded natural gas, Stone should generate in excess of $300 million of operating cash flow, compared with the company's projected capital spending budget of about $240 million. Although Stone may initially use this free cash flow to pay down debt, the liberated liquidity likely will be used to fund potential acquisitions.

The ratings on Lafayette, La.-based Stone Energy reflect the challenges the company faces as a participant in the volatile, capital-intensive exploration and production segment of the oil and natural gas industry, with a short reserve life, the bulk of its assets located in high-cost regions, and somewhat aggressive financial policies. These risks are tempered by low production costs, a proven exploration staff, and a high percentage of company-operated properties.

Stone's proved reserves as of Dec. 31, 2002 were 750.8 billion cubic feet equivalent (58% gas; 24% proved undeveloped). The company's reserves are concentrated in the Gulf of Mexico and Gulf Coast (93% of Stone's total proven reserves and 95% of production), where reserves generally deplete rapidly. Stone's remaining assets are in the Rocky Mountains. Stone intends to expand these assets because of the opportunity to modestly diversify its reserve base with longer-lived properties.

Standard & Poor's expects that Stone will produce about 300 million cubic feet equivalent (mmcfe) per day in 2003, compared with 286 mmcfe per day in 2002, yielding a short reserve life (total proved) of about 7.1 years. Stone's short reserve life heightens the importance of consistent investment to maintain production and replace produced reserves, and could necessitate external financing to sustain production and maintain reserves if hydrocarbon prices fall to lower-than-normal levels.

Stone somewhat compensates for its short reserve life through its acreage position, demonstrated exploration skills, and maintenance of capital available for acquisitions. Although Stone did not fully replace reserves in 2002 (replacing 79% of production), Stone's management believes that this is an anomaly because Stone generally replaces its reserves through a combination of drilling and complimentary acquisitions. During 2002, Stone did not complete any material acquisitions. Over the past five years (1998 through 2002), Stone on average replaced 171% of its production at an average cost of $2.50 per mcfe, with 124% provided through the drillbit and the balance through acquisitions. Stone's average all-sources finding and development costs are high compared with onshore operators, because of the higher capital costs associated with working in coastal waters. However, the economics of Stone's Gulf of Mexico properties may be better than lower-cost onshore operators because of premium realized prices and the fast-producing nature of the properties. These factors also contribute to low unit cash production costs; in 2003, Stone is expected to maintain its highly competitive lease operating and general and administrative expenses of about 60 cents per mcfe and 10 cents per mcfe, respectively.

Stone's capital structure is adequate for the rating category, even after considering the incurrence of about $300 million of acquisition-related debt in 2001. As of Dec. 31, 2002, total debt-to-total capital was 43%, when compared with 22% in 2000. In 2003, improvement in debt leverage is expected from increased retained earnings. Cash flow and profitability measures in 2003 should improve markedly because of strong hydrocarbon prices. Furthermore, the company has reduced the risks to its cash flow of pricing declines through attractively priced commodity price hedging (about 30% of production). For the medium term, even in a low commodity price environment, Stone should be capable of delivering EBITDA interest coverage of more than 9x and funds from operations in excess of 50%. In 2003, assuming a NYMEX natural gas price of $24 per barrel for West Texas Intermediate crude oil and $4.00 per mcfe for Henry-Hub-traded natural gas, Stone should generate more than $300 million of operating cash flow, which should fully fund the company's projected capital spending budget of about $240 million.

As of March 10, 2003, Stone's liquidity consisted of cash balances and short-term investments of $28 million and about $161 million available on its $350 million ($300 million borrowing base) unsecured facility. These sources should provide the company with adequate near-term liquidity as the company does not intend to outspend internal cash flow and has no near-term debt maturities until December 2004, when the credit facility matures.

Full availability of Stone's revolving credit facility is likely because the company is easily outperforming its financial covenants that include a maximum consolidated debt-to-EBITDA ratio of 3.25x.

The stable outlook reflects Standard & Poor's expectations for Stone to pursue production growth funded with internally generated funds and, when possible, reduce leverage to a more appropriate level for Stone's production profile. Stone is expected to remain acquisitive, but such transactions should be financed conservatively. ■

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# Survey of State Regulators Reveals Focus on U.S. Utilities' Financial Strength

A recently completed survey of state regulators by RKS Research & Consulting on behalf of Standard & Poor's Ratings Services revealed significant shifts in regulator priorities since the previous survey of January 2001. The feedback from the interviews, which polled 47 different jurisdictions, placed financial issues as the most important consideration for regulators, followed by federal-state jurisdictional disputes, and generation and transmission resource adequacy. Other topics included reliability and power quality issues, service obligations, and subsidization of affiliate transactions. Regarding concerns over the next five to 10 years, respondents focused on jurisdictional clarity and resource adequacy, which would indicate that financial concerns are expected to dissipate in this time frame. Two years ago, the primary issues noted by regulators were considerably different: the development of distributed generation and service reliability led the list, followed by transmission issues.

The responses indicate that utilities' financial profiles matter greatly to state regulators, at least in the short term. Regulators overwhelmingly stated that utilities need to maintain strong financial profiles. In fact, regulators highlighting this concern increased threefold, and more than a third expressed extreme concern for utilities' financial health, compared with less than 10% in 2001. Along with this position was the view by almost half of the respondents that utilities had weakened during the past three years, particularly those in the Midwest and the West. Reasons cited for this included the economic downturn, bad investment decisions, holding company/affiliate transactions, and the fallout from the California and Enron Corp. crises. However, about half of the Northeastern state regulators believe that utilities have actually strengthened, reflecting the conversion of many utilities to basically lower-risk transmission and distribution companies. Not surprisingly, only half of all commissioners said they had as much confidence in the integrity of utility financial statements compared with a few years ago. Interestingly, a measurable number—17%—indicated a higher confidence level in financial statement quality; 26% have less confidence.

State regulators clearly expect to be more involved in monitoring utilities in their jurisdictions. However, while utilities' financial conditions, and more specifically, their insulation from nonregulated activities, ranked first among the most pressing issues, opinion is evenly divided regarding whether current laws provide the appropriate enabling authority for regulators to ensure that utilities are not adversely affected by unregulated affiliates.

Other issues of note include:

- Deep jurisdictional disputes with the FERC over Standard Market Design (SMD). The majority consider SMD fatally flawed, and that it will lead to wide inequities between high- and low-cost electricity regions. Respondents highlighted inflexibility, cost-shifting among states, and whether any compelling need for SMD actually exists. A majority also expressed doubt that the proposal would ever deliver the promised results.
- Broad agreement that restructuring has stalled, along with increasing support for a return to cost-of-service regulation.
- Concerns that regional transmission systems are less than fully adequate.
- A plurality that is opposed to the repeal of the Public Utility Holding Company Act, especially by those states that do not provide retail choice.

Standard & Poor's views regulators' heightened concern, and their cognizance of the fact that unregulated parents' and affiliates' business pursuits have negatively affected utilities' credit quality, as encouraging. However, the general sense that current laws and regulations limit regulators' abilities to intervene tends to neutralize the value of such recognition. Indeed, Standard & Poor's has witnessed certain states, such as Minnesota, Arizona, and Kansas, becoming engaged in overseeing the financial activities and decisions of their utilities. While utilities and their parents may remain focused on a "back-to-basics" strategy, it is not clear that over the longer term such a strategy will hold. If it fails, and in a few years the industry is again diversifying its strategy to attract higher P/E ratios, regulators may be left on the sidelines again to wonder what happened to their regulated utilities. ■

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*(Ordering information for copies of the Standard & Poor's 2003 Survey of State Regulators is available from Richard Claeys, RKS-West at dclaeys@rksresearch.com or at (1) 408-867-6430.)*

## Laclede Group's and Unit's Ratings Are Lowered; Outlook Stable

On May 5, Standard & Poor's Ratings Services lowered its long-term corporate credit ratings on parent The Laclede Group Inc.'s and Laclede Gas Co. to 'A' from 'A+'.

Standard & Poor's also affirmed its 'A-1' short-term corporate credit rating and commercial paper ratings on Laclede Gas. The outlook is stable.

St. Louis, Mo.-based Laclede Group has about $260 million of outstanding long-term debt.

The rating action reflects subpar financial measurements relative to former credit quality. The financial weakness can be traced primarily to several successive warmer-than-normal winters and higher debt leverage.

Notwithstanding recent financial improvement, including the refinancing of Laclede Group's $45 million bridge loan with hybrid preferred-stock securities (to which Standard & Poor's accords some equity treatment) and resolution of several regulatory issues, the company's prospective consolidated financial condition is expected to approach levels that are suitable for the revised rating.

Standard & Poor's believes that ratings stability reflects expectations for financial improvement, solid competitive standing, flexible supply position, abundant storage capacity, a stable customer base, and prospects for modest rate relief. These attributes are somewhat offset by Laclede Group's support of riskier unregulated affiliates. ■

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## Sierra Pacific Power's Water Facilities Bond Rating Is Raised to 'BB'

On May 5, Standard & Poor's Ratings Services raised its rating on Sierra Pacific Power Co.'s $80 million Washoe County water facilities refunding revenue bonds to 'BB' from 'B-'.

The upgrade reflects the backing of the previously unsecured bonds by Sierra Pacific Power's general and refunding bonds as part of the current remarketing.

The tax-exempt bonds, for which Sierra Pacific Power is the obligor, mature in 2036, but are remarketed periodically to reset interest rates. The company will set rates for only one year because Sierra Pacific Power has only short-term authority to issue general and refunding bonds.

Reno, Nevada-based Sierra Pacific Power had $1.02 billion in debt outstanding as of Dec. 31, 2002. Its 'B+' corporate credit rating reflects the consolidated credit profile of Sierra Pacific Resources and its utility subsidiaries, Nevada Power Co. and Sierra Pacific Power. The rating factors in the adverse regulatory environment in Nevada; operating risk from Nevada Power's dependence on wholesale markets for over 50% of its energy requirements; and the substantially weakened financial profile resulting from the disallowance in 2002 by the Public Utility Commission of Nevada (PUCN) of $434 million in deferred-power costs for Nevada Power and $56 million for Sierra Pacific Power. The recent federal court decision denying Nevada Power's request to recover the $437 million disallowed by the PUCN did not affect ratings because Standard & Poor's had not factored into the current ratings any positive outcome from the litigation.

The negative outlook reflects the risk of an adverse ruling either by the PUCN on Nevada Power's pending deferred cost recovery case or by the court on the Enron Corp. lawsuit. Enron is demanding payment of about $300 million in marked-to-market profits on power supply contracts with Nevada Power that Enron terminated following Nevada Power's downgrade in April 2002. ■

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## Empresa Electrica Guacolda Ratings Are Affirmed; Off Watch

On May 2, Standard & Poor's Ratings Services affirmed its 'BBB-' corporate credit rating on Chilean power generator Empresa Eléctrica Guacolda S.A. (Guacolda), and removed the rating from CreditWatch with negative implications. The outlook is stable. The rating was originally placed on CreditWatch on April 3, 2003 due to high refinancing risk.

The rating action follows the company's announcement that it has successfully placed $150 million in senior amortizing secured loan participation certificates with final maturity in 2013. Proceeds were mainly applied to refinance its $87 million net debt maturities on April 30, 2003, and to prepay its $48.8 outstanding debt with Mitsubishi Corp.

The new $150 million facility significantly reduces Guacolda's refinancing risk and leaves a debt structure much more in accordance with the company's cash flow projections.

Although cash reserves are low, Guacolda does not face important capital expenditures or large capital amortizations in the next two to three years. Guacolda has been applying excess cash flows to debt reduction in recent years—total financial debt has decreased to $192 million as of December 2002 from $215 million as of December 2001. However, Guacolda's leverage remains at high levels (62.9% as of December 2002), mainly due to the devaluation of the Chilean peso. ■

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## Spanish Utilities Gas Natural, Iberdrola Ratings Are Affirmed; Off Watch

On May 6, Standard & Poor's Ratings Services affirmed its 'A+' long-term and 'A-1' short-term corporate credit ratings on Spanish utilities Gas Natural SDG S.A. and Iberdrola S.A., and removed the long-term ratings on both from CreditWatch, where they were placed on March 10, 2003. The affirmation follows the withdrawal of Gas Natural's takeover bid for Iberdrola. The outlook for both companies is stable.

Gas Natural's board announced the withdrawal of its tender offer for Iberdrola after the bid was rejected by the Spanish energy industry advisory body, Comision Nacional de Energia.

Also, Gas Natural stated that it would continue to pursue organic growth in line with its 2007 strategic plan. The utility aims to retain its roughly 70% share of the Spanish gas supply market, which is likely to experience increasing competition from electric utilities. In addition, Gas Natural targets a 10% market share in electricity supply, and plans to establish 4,800 MW of new gas-fired installed capacity by 2007. However, the utility's undiversified portfolio leaves it exposed to gas prices.

While Gas Natural's financial profile continues to provide headroom for debt-financed acquisitions, it also implies some event risk as the company may pursue larger-than-expected acquisitions, as reflected by its offer for Iberdrola.

Iberdrola, however, will continue to benefit from its strong market position, while targeting a 20% market share in gas supply. The company's strong business profile is partially offset by a considerable weakening in its financial profile caused by its ambitious 2002 growth strategy. ■

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## Enel's and Subs' Ratings Are Affirmed; Off Watch, Outlook Negative

On May 2, Standard & Poor's Ratings Services affirmed its 'A+' long-term ratings on Italy's largest electric utility Enel SpA and its subsidiaries Camuzzi Gazometri SpA, Enel Investment Holding B.V., and Camuzzi Finance S.A. The ratings were removed from CreditWatch, where they were placed on March 21, 2003. The outlook is negative. The resolution of the CreditWatch listing follows Standard & Poor's review of Enel's new business plan and future strategies. At the same time, the 'A-1' short-term corporate credit ratings on Enel and Camuzzi were affirmed.

The ratings on Enel reflect its stable cash flow from regulated activities, strong position, and robust financial profile. Offsetting its credit strengths are the higher credit risks associated with the company's electricity generation operations, increasing exposure to competitive pressure in the core electricity and gas markets, and substantial investment in the telecom industry.

Enel's financial profile deteriorated in 2002 as a consequence of higher-than-expected debt. This mainly resulted from its wholly owned telecom subsidiary, Wind, not being floated. Although Enel's financial performance is forecast to recover, Standard & Poor's does not expect Enel's debt to decrease materially in the short term.

Funds from operations to net debt is expected to remain strong at more than 25% over the medium term.

Uncertainties and execution risks surrounding possible exit solutions have prolonged Enel's financial support for Wind, with a further €1 billion capital injection forecast over the next 12 months. Enel's exposure to the volatile telecom sector will shrink after it sells its interest in Wind, but Standard & Poor's does not believe that this is likely in the short term.

The negative outlook reflects the uncertainty regarding the group's telecom operations and the likelihood that Enel will have to support Wind in the short-to-medium term. In addition, the company's credit quality is expected to decline beyond the short term as market liberalization progresses and competitive pressure increases. Any debt-funded acquisitions, expansion into higher-risk activities, or a lower-than-forecast performance by the consolidated businesses could accelerate a lowering of the long-term ratings to 'A'. ■

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# Petrozuata Finance Ratings Is Affirmed; Off Watch

On May 5, Standard & Poor's Ratings Services affirmed its 'B' rating on Petrozuata Finance Inc.'s $1 billion bonds and removed it from CreditWatch, where it was placed with negative implications on Dec. 10, 2002. The outlook is stable. The bonds are guaranteed by Petrolera Zuata, Petrozuata C.A.

Petrozuata is a heavy oil production and upgrading project in Venezuela that is owned by Conoco Venezuela Holding (50.1%), a subsidiary of ConocoPhillips, and PDVSA Petroleo (49.9%), a subsidiary of Petroleos de Venezuela S.A. (PDVSA).

The removal of the CreditWatch listing is due mainly to the project's ability to restart and stabilize operations and to make offshore debt payments without exposure to foreign exchange controls. The removal is further supported by the outlook for Venezuela and PDVSA, which was revised to stable on April 16, 2003, by Standard & Poor's because of the government's improving liquidity and a reduction, albeit limited, in economic and political pressures.

The Petrozuata project restarted upgrader operations in early March 2003 following the redelivery of natural gas and hydrogen feedstocks by PDVSA Gas and third parties supplied by PDVSA Gas. Petrozuata reports that its current operations are in line with 2003 business forecasts.

The stable outlook reflects Petrozuata's current production above or at pro forma rates and general expectations that the project will continue to receive sufficient feedstocks from PDVSA Gas to support production and will not be subject to foreign exchange controls. The outlook could change to negative if the project's ability to maintain steady production becomes questionable, or if the credit outlook for the Venezuela or PDVSA worsens.

The outlook could be revised to positive if the outlook on PDSVA and the government improves. ■

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# Last Week's Rating Reviews

## Ratings Activity: April 30 to May 7

| | Action | To | From | Date |
|---|---|---|---|---|
| Enel SpA | Outlook revised | Negative | Watch Neg | May 2 |
| Iberdrola S.A. | Outlook revised | Stable | Watch Neg | May 6 |
| Laclede Group Inc. | Rating lowered | A | A+ | May 5 |
| Laclede Gas Co. | Rating lowered | A | A+ | May 5 |
| Petrozuata Finance Inc. | Outlook revised | Stable | Watch Neg | May 5 |

# Did You Know?

## World Energy Consumption and Regional Carbon Dioxide Emissions in 2001

| Region | Consumption (quadrillion BTUs) | Emissions (mil. metric tons carbon equivalent) |
|---|---|---|
| Industrialized countries | 211.5 | 3,179 |
| Eastern Europe/Former Soviet Union | 53.3 | 856 |
| Asia | 85 | 1,640 |
| Middle East | 20.8 | 354 |
| Africa | 12.4 | 230 |
| Central and South America | 20.9 | 263 |
| Total | 403.9 | 6,522 |

*Source:* Energy Information Administration/International Energy Outlook 2003.

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## Last Week's Financing Activity

### New Debt and Preferred Stock Issues, and New Shelf Registrations

April 30 to May 7

| Company | Rating | Outlook | Issue registered date | Amount issued/reg (mil. $) | Coupon rate (%) | Security type | Maturity date | Price | BP spread over Treasury | Underwriter |
|---|---|---|---|---|---|---|---|---|---|---|
| **Electric & Water** | | | | | | | | | | |
| AES Corp. | B+ | Negative | May 2, 2003 | 600 | 9 | Senior Secured Notes | May 15, 2015 | 100 | 496 | Citigroup |
| Alabama Power Co. | A | Stable | May 2, 2003 | 250 | 3.125 | Drawdown | May 1, 2008 | — | — | Barclays Capital |
| Appalachian Power Co. | BBB | Stable | April 30, 2003 | 200 | — | Unsecured Notes | — | — | — | Bank One Capital Markets |
| Arizona Public Service Co. | BBB | Stable | May 6, 2003 | 200 | — | Drawdown | May 1, 2033 | — | — | Lehman/Bank of America Securities |
| Arizona Public Service Co. | BBB | Stable | May 6, 2003 | 300 | — | Drawdown | May 1, 2015 | — | — | Lehman/Bank of America Securities |
| Duke Energy Corp. | A- | Negative | May 1, 2003 | 700 | — | Drawdown | 2023 | — | — | Citigroup/JP Morgan |
| Empire District Electric Co. | BBB- | Stable | April 30, 2003 | 100 | — | Credit Agreement | April 17, 2005 | — | — | — |
| Entergy Arkansas Inc. | BBB+ | Stable | May 2, 2003 | 150 | 5.4 | First Mortgage Bonds | May 1, 2018 | — | — | — |
| Wisconsin Electric Power Co. | A- | — | May 2, 2003 | 300 | 4.5 | Drawdown | May 15, 2013 | — | — | JP Morgan/BancOne Capital Markets |
| Wisconsin Electric Power Co. | A- | — | May 2, 2003 | 335 | 5.625 | Drawdown | May 15, 2033 | — | — | JP Morgan/BancOne Capital Markets |
| **Gas** | | | | | | | | | | |
| None | | | | | | | | | | |
| **Oil & Gas** | | | | | | | | | | |
| None | | | | | | | | | | |
| **Project Finance** | | | | | | | | | | |
| None | | | | | | | | | | |
| **Telecommunications** | | | | | | | | | | |
| None | | | | | | | | | | |

bp—Basis point. All shelf ratings except medium-term note programs are preliminary until drawn down.

# Duke Energy's $700 Million Senior Notes Are Rated 'A-'

On May 2, Standard & Poor's Ratings Services assigned its 'A-' senior unsecured debt rating to Duke Energy Corp.'s $700 million convertible senior notes due 2023. The outlook is negative.

Charlotte, N.C.-based Duke Energy had $22.5 billion in consolidated debt outstanding (including current maturities) as of Dec. 31, 2002.

The proposed note issue is a drawdown from Duke Energy's existing $1.5 billion shelf registration.

Standard & Poor's negative outlook on Duke Energy reflects the need to review the company's progress on its asset sale strategy, as well as updated financial projections, to determine the likelihood and timing of financial improvement. Duke Energy will need to improve funds from operations (FFO) interest coverage and FFO to total debt beyond 4x and 16%, respectively, to maintain current ratings.

Standard & Poor's also said that the FERC's investigations of energy traders continues to be a concern.

At the drawdown, the shelf registration had $1.3 billion available. Duke Energy plans to use the proceeds for various corporate needs, which may include the reduction of outstanding commercial paper.

The notes are senior unsecured obligations of the corporation. The noteholders can convert their holdings to common shares of Duke Energy if certain conditions are met. Given that there is no mandatory conversion, Standard & Poor's views the notes as being fully debt-like. ■

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# Wisconsin Electric Power's $635 Million Debt Issue Is Rated 'A-'

On May 5, Standard & Poor's Ratings Services assigned its 'A-' rating to Wisconsin Electric Power Co.'s $635 million of senior unsecured debentures due in 2013 and 2033. Proceeds will be used to retire existing callable debt of various maturities. The outlook is stable.

Milwaukee, Wisc.-based Wisconsin Energy Corp., parent of Wisconsin Electric Power, and its other subsidiaries had

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about $3.9 billion of debt outstanding as of March 31, 2003.

Standard & Poor's stable outlook for Wisconsin Energy reflects the company's focus on its core utility business, which is expected to remain strong and provide the majority of the cash flows. However, the ratings or outlook could change due to further weakening of financial measures during the construction phase of its Power the Future (PTF) program if interest rates rise or project costs supercede original estimates.

Standard & Poor's also noted that the company is subject to refinancing risk when it will need to raise permanent financing for PTF projects, which could also adversely affect the ratings and outlook.

Wisconsin Energy's PTF program is the company's plan to build new nonregulated generation to meet Wisconsin Electric Power's expected energy demand for the next 10 years. ■

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# North Carolina Eastern Municipal Power's Bonds Are Rated 'BBB'

On May 2, Standard & Poor's Ratings Services assigned its 'BBB' rating to North Carolina Eastern Municipal Power Agency's $294.1 million power system revenue bonds series 2003D-E, based on the agency's significant debt burden, relatively high wholesale power costs and resultant uncompetitive member retail rates, and credit quality implications resulting from the presence of economically depressed regions in its service territory.

These risks are mitigated by the strong take-or-pay contracts provided, which contractually obligate member cities to pay agency debt service; the financial oversight and political support provided by the Local Government Commission of North Carolina; and the limited prospects for any North Carolina deregulation.

The outlook is stable, reflecting the strength of the existing legal structure provided by the contracts and the Local Government Commission of North Carolina's oversight, the lack of deregulation, and the recently renewed supplemental agreement with Carolina Power & Light Co.

Proceeds of the bonds and certain other available money will be used to refund existing power system revenue bonds.

North Carolina Eastern's weak business profile of '6' on Standard & Poor's 10-point scale takes into account the agency's high fixed costs and the overall average credit quality of the member cities, which include the very poor economics and demographics of some of the smaller participants. Some display shrinking populations, high unemployment, and per capita income levels well below the national average. These trends heighten Standard & Poor's credit concerns.

North Carolina Eastern is a joint-action agency that provides wholesale power to 32 member cities under take-or-pay contracts. The bonds are payable from member revenues collected by the agency. ■

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# Medco Energi's Proposed $200 Million Notes Are Rated 'B+'

On May 5, Standard & Poor's Ratings Services assigned its 'B+' rating to Indonesian oil and gas company P.T. Medco Energi Internasional Tbk.'s proposed senior unsecured notes issue of about $200 million. The notes are due 2010, and puttable by noteholders in 2008. The notes will be issued by subsidiary MEI Euro Finance Ltd. and will be guaranteed by Medco. The rating on the notes, therefore, reflects the corporate credit rating on Medco. Proceeds from the new debt will be used primarily to fund Medco's acquisition of petroleum assets in 2003 and its intensive exploration, development, and production program.

In addition, Medco is offering to exchange its existing $100 million 10% senior unsecured notes due March 2007 for the proposed notes due 2010. Those exchange offer notes that are tendered will form a single series with the proposed note issue, and will have the same rating.

The additional debt of about $200 million is consistent with Standard & Poor's expectations of Medco's capital structure, whereby total debt to capital could rise to 50% to 60% (from about 16% at Dec. 31, 2002) in the near-to-medium term, depending on the implementation of planned development activities and acquisition opportunities.

Medco's rating reflects the company's short proved-reserves life index of 4.8 years, which explains the company's plans to acquire producing oil blocks in 2003, in addition to developing its substantial gas reserves, to add to its proved reserves base and production volumes. With reserves declining due to the maturity of Medco's fields, the company is also expected to incur significant capital costs and face various execution risks to convert its substantial probable reserves into proved reserves.

Production and proved reserves growth remain highly dependent on gas sales contracts, or the development of

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gas infrastructure in Indonesia, to absorb the company's large uncommitted gas reserves.

Although the policy direction in Indonesia is largely positive, the full operational effects of expected changes remain to be seen.

Uncertainty in the regulatory environment will continue in the near-to-medium term. Medco does, however, enjoy some insulation from sovereign debt risks. Despite its own difficulties, the Indonesian government in recent years has not sought to impose a debt moratorium or interfere with local companies accessing the foreign exchange markets to service their foreign currency obligations. Furthermore, Medco enjoys some insulation from currency instability and weaknesses in the Indonesian banking system as its oil prices and revenues are in U.S. dollars, which are deposited mainly in offshore bank accounts.

The rating on Medco also reflects the company's favorable cost structure and production track record. The large size of Medco's operating areas, low labor costs, and proximity to oil and gas supply infrastructure contribute to its better-than-average cost structure. Lifting cost in 2002 was about $2.89 per barrel of oil equivalent (boe), compared with the global average of $4 to $5 per boe. The company's three-year rolling average finding and development costs were moderately low at $2.69 per boe. Medco also has moderate, although increasingly aggressive, debt leverage and strong credit measures. Its credit ratios will weaken in the near-to-medium term, when the company assumes greater debt to fund its acquisition of petroleum assets and drilling rigs in 2003, and its intensive drilling program.

The rating also assumes that 2003 petroleum asset acquisition costs will be between $150 million and $180 million, can immediately contribute to the company's proved reserves base, and that corresponding production volumes can be realized in a timely manner.

Securing long-term gas sales contracts would allow the company to certify its probable gas reserves into proved reserves. This could result in a modest improvement in Medco's overall credit quality, if coupled with an improving country risk environment. ■

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# Utility Credit Rankings

The following list contains Standard & Poor's Ratings, Outlooks, and Business Profiles for utilities. This list, dated May 7, 2003, reflects the most current ratings, rankings, and outlooks. It is arranged by corporate credit rating categories. Within corporate credit rating categories, issuers are grouped by Outlooks; and within Outlook categories, issuers are listed by RELATIVE STRENGTH, with the first being the strongest, and the last being the weakest.

A Standard & Poor's rating Outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. In determining a rating Outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An Outlook is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that a rating may be raised; "Negative" means a rating may be lowered; "Stable" indicates that ratings are not likely to change; and "Developing" means ratings may be raised or lowered. N.M. means not meaningful.

Utility business profiles are categorized from 1 (strong) to 10 (weak). In order to determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics typical of a utility: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management. Telecommunications companies have not been assigned business profiles. Issuer credit ratings, shown as long-term rating/outlook or CreditWatch/short-term rating, are local and foreign currency unless otherwise noted. A dash '—' indicates not rated. An asterisk '*' indicates that the utility was reviewed this week and its ranking position was updated.

# U.S. Electric/Gas/Water Companies

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| Baton Rouge Water Works Co. (The) | AA/Stable/— | 2 |
| Madison Gas & Electric Co. | AA/Negative/A-1+ | 5 |
| Nicor Gas Co. | AA/CW-Neg/A-1+ | 2 |
| Nicor Inc. | AA/CW-Neg/A-1+ | 3 |
| | | |
| Washington Gas Light Co. | AA-/Stable/A-1+ | 3 |
| WGL Holdings Inc. | AA-/Stable/A-1+ | 3 |
| Wisconsin Public Service Corp. | AA-/Stable/A-1 | 4 |
| | | |
| Southern California Water Co. | A+/Stable/— | 3 |
| Southern California Gas Co. | A+/Stable/A-1 | 2 |
| San Diego Gas & Electric Co. | A+/Stable/A-1 | 5 |
| American States Water Co. | A+/Stable/— | 3 |
| California Water Service Co. | A+/Stable/— | 3 |
| Consolidated Edison Co. of New York Inc. | A+/Stable/A-1 | 3 |
| Consolidated Edison Inc. | A+/Stable/A-1 | 3 |
| Orange and Rockland Utilities Inc. | A+/Stable/A-1 | 3 |
| Rockland Electric Co. | A+/Stable/— | 4 |
| Otter Tail Corp. | A+/Stable/A-1 | 6 |
| Questar Pipeline Co. | A+/Negative/— | 3 |
| Elizabethtown Water Co. | A+/Negative/— | 3 |
| KeySpan Energy Delivery New York | A+/Negative/— | 2 |
| KeySpan Energy Delivery Long Island | A+/Negative/— | 2 |
| Pennsylvania Suburban Water Co. | A+/CW-Neg/— | 2 |
| | | |
| Central Hudson Gas & Electric Co. | A/Positive/— | 3 |
| New Jersey Natural Gas Co. | A/Positive/A-1 | 2 |
| American Transmission Co. | A/Stable/A-1 | 2 |
| Aquarion Co. | A/Stable/— | 3 |
| BHC Co. | A/Stable/— | 2 |
| Middlesex Water Co. | A/Stable/— | 3 |
| Colonial Pipeline Co. | A/Stable/A-1 | 3 |
| Northwest Natural Gas Co. | A/Stable/A-1 | 3 |
| ONEOK Inc. | A/Stable/A-1 | 5 |
| Massachusetts Electric Co. | A/Stable/A-1 | 3 |
| Narragansett Electric Co. | A/Stable/A-1 | 3 |
| New England Power Co. | A/Stable/A-1 | 3 |
| Niagara Mohawk Power Corp. | A/Stable/— | 4 |
| National Grid USA | A/Stable/A-1 | 3 |
| NSTAR | A/Stable/A-1 | 3 |
| Boston Edison Co. | A/Stable/A-1 | 3 |
| Commonwealth Electric Co. | A/Stable/— | 3 |
| NSTAR Gas Co. | A/Stable/— | 3 |
| Cambridge Electric Light Co. | A/Stable/— | 3 |
| Buckeye Partners L.P. | A/Stable/— | 4 |
| *Laclede Gas Co. | A/Stable/A-1 | 3 |
| *Laclede Group Inc. | A/Stable/— | 3 |
| MidAmerican Energy Co. | A/Stable/A-1 | 4 |
| WPS Resources Corp. | A/Stable/A-1 | 5 |
| Mississippi Power Co. | A/Stable/A-1 | 4 |
| Alabama Power Co. | A/Stable/A-1 | 4 |
| Gulf Power Co. | A/Stable/— | 4 |
| Georgia Power Co. | A/Stable/A-1 | 4 |
| Savannah Electric & Power Co. | A/Stable/— | 4 |
| Southern Co. | A/Stable/A-1 | 4 |
| Equitable Resources Inc. | A/Stable/A-1 | 5 |
| Atlantic City Sewerage Co. | A/Stable/— | 3 |
| Questar Corp. | A/Negative/A-1 | 5 |
| Boston Gas Co. | A/Negative/— | 3 |
| Colonial Gas Co. | A/Negative/— | 3 |
| KeySpan Generation LLC | A/Negative/— | 4 |
| KeySpan Corp. | A/Negative/A-1 | 4 |
| Florida Power & Light Co. | A/Negative/A-1 | 4 |
| FPL Group Inc. | A/Negative/— | 5 |
| FPL Group Capital | A/Negative/A-1 | 7 |
| Piedmont Natural Gas Co. Inc. | A/CW-Neg/— | 3 |
| | | |
| IDACORP Inc. | A-/Positive/A-2 | 5 |
| Idaho Power Co. | A-/Positive/A-2 | 4 |
| Northern Natural Gas Co. | A-/Positive/— | 3 |
| Midwest Independent Transmission System Operator Inc. | A-/Positive/— | 3 |
| Peoples Energy Corp. | A-/Stable/A-2 | 4 |
| Peoples Gas Light & Coke Co. | A-/Stable/A-2 | 3 |
| North Shore Gas Co. | A-/Stable/A-2 | 3 |
| Virginia Electric & Power Co. | A-/Stable/A-2 | 4 |
| Wisconsin Gas Co. | A-/Stable/A-2 | 3 |
| Wisconsin Electric Power Co. | A-/Stable/A-2 | 4 |
| Wisconsin Natural Gas Co. | A-/Stable/— | 3 |
| Atlanta Gas Light Co. | A-/Stable/— | 2 |
| Alabama Gas Corp. | A-/Stable/— | 2 |
| Energen Corp. | A-/Stable/— | 6 |
| AGL Resources Inc. | A-/Stable/— | 3 |
| Public Service Co. of North Carolina Inc. | A-/Stable/A-1 | 3 |
| South Carolina Electric & Gas Co. | A-/Stable/A-1 | 4 |
| SCANA Corp. | A-/Stable/— | 4 |
| PPL Electric Utilities Corp. | A-/Stable/A-2 | 4 |
| Baltimore Gas & Electric Co. | A-/Stable/A-2 | 3 |
| PECO Energy Co. | A-/Stable/A-2 | 4 |
| Commonwealth Edison Co. | A-/Stable/A-2 | 4 |
| Exelon Generation Co. LLC | A-/Stable/A-2 | 8 |
| Exelon Corp. | A-/Stable/A-2 | 6 |
| Sempra Energy | A-/Stable/A-2 | 5 |
| Constellation Energy Group Inc. | A-/Stable/A-2 | 6 |
| Delmarva Power & Light Co. | A-/Stable/A-2 | 3 |
| Union Electric Co. | A-/Stable/A-1 | 4 |
| Central Illinois Public Service Co. | A-/Stable/— | 3 |
| Central Illinois Light Co. | A-/Stable /— | 4 |
| CILCORP Inc. | A-/Stable/— | 4 |
| AmerenEnergy Generating Co. | A-/Stable/— | 7 |

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# U.S. Electric/Gas/Water Companies continued

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| Ameren Corp. | A-/Stable/A-2 | 5 |
| Louisville Gas & Electric Co. | A-/Stable/A-2 | 4 |
| Kentucky Utilities Co. | A-/Stable/A-2 | 4 |
| LG&E Energy Corp. | A-/Stable/— | 6 |
| LG&E Capital Corp. | A-/Stable/A-2 | 8 |
| AmerenEnergy Generating Co. | A-/Stable/— | 7 |
| Indiana Gas Co. Inc. | A-/Negative/— | 2 |
| Kern River Gas Transmission Co. | A-/Negative/— | 4 |
| Southern Indiana Gas & Electric Co. | A-/Negative/— | 4 |
| Vectren Utility Holdings | A-/Negative/A-2 | 4 |
| Vectren Corp. | A-/Negative/— | 4 |
| PacifiCorp Holdings Inc. | A-/Negative/— | 4 |
| PacifiCorp | A-/Negative/A-2 | 4 |
| Wisconsin Power & Light Co. | A-/Negative/A-2 | 4 |
| Atmos Energy Corp. | A-/Negative/A-2 | 4 |
| Montana-Dakota Utilities Co. | A-/Negative/— | 4 |
| MDU Resources Group Inc. | A-/Negative/A-2 | 6 |
| Northern Border Pipeline Co. | A-/Negative/— | 3 |
| Northern Border Partners L.P. | A-/Negative/— | 3 |
| Duke Energy Corp. | A-/Negative/A-2 | 5 |
| Duke Capital Corp. | A-/NegativeA-2 | 6 |
| Texas Eastern Transmission L.P. | A-/Negative/— | 4 |
| Market Hub Partners Storage L.P. | A-/Negative/— | 7 |
| PanEnergy Corp. | A-/Negative/— | 4 |
| United Water New Jersey | A-/CW-Neg/— | 3 |
| United Waterworks | A-/CW-Neg/— | 3 |
| NOVA Gas Transmission Ltd. | A-/CW-Neg/— | 2 |
| TransCanada Pipelines Ltd. | A-/CW-Neg/— | 2 |
| | | |
| South Jersey Gas Co. | BBB+/Stable/— | 3 |
| PEPCO Holdings Inc. | BBB+/Stable/A-2 | 4 |
| Cascade Natural Gas Corp. | BBB+/Stable/— | 3 |
| UGI Utilities Inc. | BBB+/Stable/— | 4 |
| Kinder Morgan Energy Partners L.P. | BBB+/Stable/A-2 | 4 |
| Connecticut Light & Power Co. | BBB+/Stable/— | 4 |
| Western Massachusetts Electric Co. | BBB+/Stable/— | 4 |
| Public Service Co. of New Hampshire | BBB+/Stable/— | 5 |
| Northeast Utilities | BBB+/Stable/— | 5 |
| Oklahoma Gas & Electric Co. | BBB+/Stable/A-2 | 4 |
| OGE Energy Corp. | BBB+/Stable/A-2 | 5 |
| Wisconsin Energy Corp. | BBB+Stable/A-2 | 5 |
| Transok Inc. | BBB+/Stable/— | 6 |
| Enogex Inc. | BBB+/Stable/— | 6 |
| Consolidated Natural Gas Co. | BBB+/Stable/A-2 | 5 |
| Dominion Resources Inc. | BBB+/Stable/A-2 | 5 |
| Michigan Consolidated Gas Co. | BBB+/Stable/A-2 | 3 |
| Detroit Edison Co. | BBB+/Stable/A-2 | 6 |
| MCN Energy Enterprises Inc. | BBB+/Stable/— | 8 |
| DTE Enterprises | BBB+/Stable/— | 6 |
| DTE Energy Co. | BBB+/Stable/A-2 | 6 |
| Cinergy Corp. | BBB+/Stable/A-2 | 5 |
| Cincinnati Gas & Electric Co. | BBB+/Stable/— | 4 |
| PSI Energy Inc. | BBB+/Stable/— | 4 |
| National Fuel Gas Co. | BBB+/Stable/A-2 | 6 |
| Union Light Heat & Power Co. | BBB+/Stable/— | 4 |
| Hawaiian Electric Co. Inc. | BBB+/Stable/A-2 | 6 |
| Maui Electric Co. Ltd. | BBB+/Stable/— | 6 |
| Hawaiian Electric Light Co. Inc. | BBB+/Stable/— | 6 |
| Potomac Electric Power Co. | BBB+/Stable/A-2 | 3 |
| Conectiv | BBB+/Stable/— | 4 |
| Atlantic City Electric Co. | BBB+/Stable/A-2 | 3 |
| Kaneb Pipe Line Operating Partnership L.P. | BBB+/Stable/— | 5 |
| Portland General Electric Co. | BBB+/Developing/A-2 | 4 |
| Interstate Power & Light Co. | BBB+/Negative/A-2 | 5 |
| Alliant Energy Corp. | BBB+/Negative/A-2 | 5 |
| Alliant Energy Resources Inc. | BBB+/Negative/— | 8 |

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| Progress Energy Florida Inc. | BBB+/Negative/A-2 | 4 |
| Progress Energy Carolinas Inc. | BBB+/Negative/A-2 | 5 |
| Florida Progress Corp. | BBB+/Negative/— | 5 |
| Progress Energy Inc. | BBB+/Negative/A-2 | 5 |
| Connecticut Natural Gas Corp. | BBB+/Negative/— | 3 |
| Southern Connecticut Gas Co. | BBB+/Negative/— | 3 |
| Central Maine Power Co. | BBB+/Negative/— | 3 |
| New York State Electric & Gas Corp. | BBB+/Negative/A-2 | 3 |
| Energy East Corp. | BBB+/Negative/— | 3 |
| Rochester Gas & Electric Corp. | BBB+/Negative/— | 5 |
| RGS Energy Group Inc. | BBB+/Negative/— | 5 |
| Questar Market Resources Inc. | BBB+/Negative/— | 8 |
| ALLETE Inc. | BBB+/CW-Dev/A-2 | 6 |
| Northern States Power Wisconsin | BBB+/CW-Dev/— | 4 |
| | | |
| TEPPCO Partners L.P. | BBB/Stable/— | 4 |
| TE Products Pipeline Co. L.P. | BBB/Stable/— | 4 |
| Florida Gas Transmission Co. | BBB/Stable/— | 2 |
| NUI Utilities Inc. | BBB/Stable/— | 3 |
| Arizona Public Service Co. | BBB/Stable/A-2 | 4 |
| Pinnacle West Capital Corp. | BBB/Stable/A-2 | 5 |
| Kinder Morgan Inc. | BBB/Stable/A-2 | 5 |
| AEP Texas Central Co. (formerly Central Power & Light) | BBB/Stable— | 2 |
| AEP Texas North Co. (formerly West Texas Utilities Co.) | BBB/Stable /— | 2 |
| AEP Resources Inc. | BBB/Stable /— | 7 |
| Appalachian Power Co. | BBB/Stable— | 3 |
| Columbus Southern Power Co. | BBB/Stable— | 2 |
| Indiana Michigan Power Co. | BBB/Stable— | 4 |
| Kentucky Power Co. | BBB/Stable— | 3 |
| Ohio Power Co. | BBB/Stable— | 2 |
| Public Service Co. of Oklahoma | BBB /Stable— | 3 |
| Southwestern Electric Power Co. | BBB/Stable/— | 3 |
| American Electric Power Co. Inc. | BBB/Stable /A-2 | 5 |
| Public Service Electric & Gas Co. | BBB/Stable/A-2 | 3 |
| PSEG Power LLC | BBB/Stable/— | 7 |
| Public Service Enterprise Group Inc. | BBB/Stable/A-2 | 6 |
| PSEG Energy Holdings, Inc. | BBB/Stable/— | 8 |
| Entergy Arkansas Inc. | BBB/Stable/— | 6 |
| Entergy Louisiana Inc. | BBB/Stable/— | 6 |
| Entergy Mississippi Inc. | BBB/Stable/— | 7 |
| Entergy New Orleans Inc. | BBB/Stable/— | 7 |
| Entergy Corp. | BBB/Stable/— | 6 |
| Hawaiian Electric Industries Inc. | BBB/Stable/A-2 | 6 |
| Duke Energy Field Services LLC | BBB/Stable/A-2 | 6 |
| Black Hills Power Inc. | BBB/Stable/—- | 5 |
| Black Hills Corp. | BBB/Stable/A-2 | 7 |
| Potomac Capital Investment Corp. | BBB/Stable/— | 7 |
| Empire District Electric Co. | BBB/Stable/A-2 | 5 |
| Great Plains Energy Inc. | BBB/Stable/— | 6 |
| Kansas City Power & Light Co. | BBB/Stable/A-2 | 6 |
| Southern Union Co. | BBB/Stable/— | 4 |
| Dayton Power & Light Co. | BBB/Stable/A-2 | 4 |
| DPL Inc. | BBB/Stable/A-2 | 6 |
| Centerpoint Energy Inc. | BBB/Stable/— | 5 |
| Centerpoint Energy Houston Electric LLC | BBB/Stable/— | 5 |
| Centerpoint Energy Resources Corp. | BBB/Stable/— | 5 |
| TXU U.S. Holdings | BBB/Negative/— | 5 |
| Oncor Electric Delivery Co. | BBB/Negative/— | 5 |
| TXU Energy Co. LLC | BBB/Negative/— | 5 |
| TXU Gas Co. | BBB/Negative/— | 5 |
| TXU Corp. | BBB/Negative/— | 5 |
| PacifiCorp Group Holdings Co. | BBB/Negative/— | 4 |
| Jersey Central Power & Light Co. | BBB/Negative/— | 4 |
| Pennsylvania Electric Co. | BBB/Negative/— | 5 |

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# U.S. Electric/Gas/Water Companies continued

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| Metropolitan Edison Co. | BBB/Negative/— | 5 |
| Ohio Edison Co. | BBB/Negative/— | 6 |
| Cleveland Electric Illuminating Co. | BBB/Negative/— | 6 |
| Toledo Edison Co. | BBB/Negative/— | 6 |
| Pennsylvania Power Co. | BBB/Negative/— | 6 |
| FirstEnergy Corp. | BBB/Negative/— | 6 |
| Southwestern Energy Co. | BBB/Negative/— | 8 |
| Cleco Power LLC | BBB/Negative/A-3 | 5 |
| Cleco Corp. | BBB/Negative/A-3 | 6 |
| Duquesne Light Co. | BBB/Negative/A-3 | 4 |
| DQE Inc. | BBB/Negative/A-3 | 5 |
| Tampa Electric Co. | BBB/Negative/A-2 | 4 |
| TECO Energy Inc. | BBB/Negative/A-3 | 5 |
| Teco Finance Inc. | BBB/Negative/— | 8 |
| NiSource Inc. | BBB/Negative/A-2 | 4 |
| Columbia Energy Group | BBB/Negative/— | 4 |
| Bay State Gas Co. | BBB/Negative/— | 3 |
| Northern Indiana Public Service Co. | BBB/Negative/— | 5 |
| Noark Pipeline Finance LLC | BBB/Negative/— | 6 |
| PPL Corp. | BBB/Negative/— | 5 |
| PPL Energy Supply LLC | BBB/Negative/A-2 | 5 |
| Duke Energy Trading and Marketing LLC | BBB/Negative/— | 8 |
| Xcel Energy Inc. | BBB/CW-Dev/A-3 | 6 |
| Northern States Power Co. | BBB/CW-Dev/A-3 | 4 |
| Southwestern Public Service Co. | BBB/CW-Dev/A-3 | 4 |
| Public Service Co. of Colorado | BBB/CW-Dev/A-3 | 4 |
| | | |
| Green Mountain Power Corp. | BBB-/Stable/— | 7 |
| El Paso Electric Co. | BBB-/Stable/— | 6 |
| Entergy Gulf States Inc. | BBB-/Stable/— | 6 |
| System Energy Resources Inc. | BBB-/Stable/— | 7 |
| Puget Sound Energy Inc. | BBB-/Stable/A-3 | 4 |
| Washington Natural Gas Co. | BBB-/Stable/A— | 5 |
| Puget Energy Inc. | BBB-/Stable/— | 5 |
| Central Vermont Public Service Corp. | BBB-/Stable/— | 6 |
| Texas-New Mexico Power Co. | BBB-/Stable/— | 5 |
| Public Service Co. of New Mexico | BBB-/Stable/— | 6 |
| SEMCO Energy Inc. | BBB-/Negative/— | 4 |
| Southwest Gas Corp. | BBB-/Negative/— | 4 |
| | | |
| AmeriGas Partners L.P. | BB+/Stable/— | 7 |
| Western Gas Resources Inc. | BB+/Stable/— | 7 |
| Avista Corp. | BB+/Stable/— | 5 |
| Kansas Gas & Electric Co. | BB+/Developing /— | 6 |
| Westar Energy Inc. | BB+/Developing/— | 6 |
| Indianapolis Power & Light Co. | BB+/Negative/— | 4 |
| IPALCO Enterprises Inc. | BB+/Negative/— | 4 |
| El Paso Energy Partners L.P. | BB+/CW-Neg/— | 6 |
| Northwestern Corp. | BB+/CW-Neg/— | 6 |
| Northwestern Energy Montana | BB+/CW-Neg/— | 6 |
| | | |
| Transwestern Pipeline Co. | BB/CW-Pos/— | 5 |
| CMS Panhandle Pipeline Cos. | BB/CW-Pos/— | 4 |

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| Southern California Edison Co. | BB/CW-Dev/— | 8 |
| Consumers Energy Co. | BB/Negative/— | 6 |
| CMS Energy Corp. | BB/Negative/— | 6 |
| Tucson Electric Power Co. | BB/CW-Neg/— | 6 |
| | | |
| Ferrellgas Partners L.P. | BB-/Stable/— | 7 |
| West Penn Power Co. | BB-/CW-Neg/— | 2 |
| Potomac Edison Co. | BB-/CW-Neg/— | 2 |
| Monongahela Power Co. | BB-/CW-Neg/— | 2 |
| Allegheny Energy Inc. | BB-/CW-Neg/— | 5 |
| Allegheny Generating Co. | BB-/CW-Neg/— | 7 |
| Allegheny Energy Supply Co. LLC | BB-/CW-Neg/— | 7 |
| | | |
| Heating Oil Partners L.P. | B+/Stable/— | 3 |
| Sierra Pacific Power Co. | B+/Negative/— | 5 |
| Nevada Power Co. | B+/Negative/— | 6 |
| Sierra Pacific Resources | B+/Negative/— | 5 |
| El Paso Natural Gas Co. | B+/Negative/— | 4 |
| Tennessee Gas Pipeline Co. | B+/Negative/— | 4 |
| ANR Pipeline Co. | B+/Negative/— | 4 |
| Colorado Interstate Gas Co. | B+/Negative/— | 3 |
| El Paso CGP Co. | B+/Negative/— | 6 |
| Southern Natural Gas Co. | B+/Negative/— | 4 |
| El Paso Corp. | B+/Negative/— | 6 |
| El Paso Tennessee Pipeline Co. | B+/Negative/— | 4 |
| Transcontinental Gas Pipe Line Corp. | B+/CW-Neg/— | 3 |
| Texas Gas Transmission Corp. | B+/CW-Neg/— | 4 |
| The Williams Companies Inc. | B+/CW-Neg/— | 6 |
| Northwest Pipeline Corp. | B+/CW-Neg/— | 3 |
| Aquila Inc. | B+/CW-Neg/— | 6 |
| Aquila Merchant Services Inc. | B+/CW-Neg/— | 9 |
| | | |
| Reliant Energy Mid-Atlantic Power Holdings LLC | B/CW-Dev/— | 7 |
| Reliant Resources Inc. | B/CW-Dev/— | 7 |
| Orion Power Holdings Inc. | B/CW-Dev/— | 7 |
| Illinois Power Co. | B/CW-Neg/— | 6 |
| Dynegy Holdings Inc. | B/CW-Neg/— | 6 |
| Illinova Corp. | B/CW-Neg/— | 7 |
| Dynegy Inc. | B/CW-Neg/— | 7 |
| Mirant Americas Generation Inc. | B/CW-Neg/— | 7 |
| Mirant Corp. | B/CW-Neg/— | 7 |
| Mirant Americas Energy Marketing L.P. | B/CW-Neg/— | 8 |
| | | |
| Edison International | B-/Developing/— | 8 |
| | | |
| PG&E Gas Transmission-Northwest | CCC/CW-Neg/— | 2 |
| | | |
| PG&E Energy Trading Holdings Co. | C/CW-Neg/— | 8 |
| | | |
| NRG Energy Inc. | D/—/— | 9 |
| Pacific Gas & Electric Co. | D/—/D | 9 |

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# U.S. Telecommunications Companies

| Company | Corporate Credit Rating |
|---|---|
| SBC Communications Inc. | AA-/CW-Neg/A-1+ |
| BellSouth Corp. | A+/Stable/A-1 |
| Cingular Wireless LLC | A+/Stable/A-1 |
| Verizon Communications Inc. | A+/Stable/— |
| Cellco Partnership (d/b/a Verizon Wireless) | A+/Stable/— |
| ALLTEL Corp. | A/Negative/A-1 |
| Telephone & Data Systems Inc. | A-/Negative/— |
| CenturyTel Inc. | BBB+/Stable/A-2 |
| Intelsat Ltd. | BBB+/Stable/A-2 |
| AT&T Corp. | BBB+/Negative/A-2 |
| AT&T Wireless Services Inc. | BBB/Stable/A-2 |
| Citizens Communications Co. | BBB/Negative/A-2 |
| Sprint Corp. | BBB-/Stable/A-3 |
| PanAmSat Corp. | B+/CW-Pos/— |
| Qwest Communications International | B-/Developing/— |
| Broadwing Inc. | B-/Negative/— |
| Williams Communications Group | D/—/— |

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# International Companies

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| **Europe/Middle East/Africa** | | |
| Electricite de France | AA/Negative/A-1+ | 4.5 |
| E.ON AG | AA-/Stable/A-1+ | N.A. |
| *Iberdrola S.A. | A+/Stable/A-1 | 4 |
| Acea SpA | A+/Negative/A-1 | 3 |
| RWE AG | A+/Negative/A-1 | 4.5 |
| *ENEL SpA | A+/Negative/A-1 | 4.5 |
| National Grid Co. PLC | A/Stable/A-1 | 3 |
| Verbundgesellschaft | A/Stable/— | 4.5 |
| Endesa S.A. | A/Negative/A-1 | 5 |
| United Utilities PLC | A-/Positive/A-2 | 3 |
| South Western Electricity PLC | A-/Stable/A-2 | 3 |
| PowerGen UK PLC | A-/Stable/A-1 | 6 |
| Innogy PLC | A-/Negative/A-2 | 6 |
| ScottishPower UK PLC | A-/Negative/A-2 | 3.5 |
| CEZ AS | BBB+/Positive/— | 5.5 |
| Public Power Corp. of Greece | BBB+/Stable/— | 5 |
| WPD Holdings U.K. | BBB+/Negative/A-2 | N.A. |
| Israel Electric Corp. Ltd. | Foreign currency | |
| | BBB+/Negative/— | 3.5 |
| ESKOM Holding Ltd. | Local currency | |
| | A-/Positive/— | 5.5 |
| | Foreign currency | |
| | BBB-/Positive/— | |
| Mosenergo (AO) | B-/Positive/— | 8 |
| British Energy PLC | SD/—/— | 6 |
| **Latin America** | | |
| Comision Federal de Electricidad (CFE) | Local currency | |
| | BBB+/Stable/— | 5 |
| | Foreign currency | |
| | BBB-/Stable/— | |
| Enersis S.A. | BBB-/Negative/— | 4.5 |
| Companhia de Eletricidade do Rio de Janiero (CERJ) | Local currency | |
| | BB-/Negative/— | 7 |
| | Foreign currency | |
| | B+/Stable/— | |
| AES Gener S.A. | B/Negative/— | 5.5 |
| Empresa Electrica del Norte Grande S.A. (Edelnor S.A.) | CC/CW-Pos/— | 9.5 |
| Compania de Transporte de Energia Electrica de Alta Tension SA (Transener) | D/—/— | 4.5 |

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| **Asia/Pacific** | | |
| Singapore Power Ltd. | AAA/Stable/— | 3.5 |
| Tokyo Electric Power Co. Inc. | AA-/Negative/A-1+ | 3.5 |
| SPI PowerNet Pty Ltd. | A+/Positive/A-1 | 1.5 |
| CLP Power Hong Kong Ltd. | A+/Stable/A-1 | 3.5 |
| Powercor Australia LLC | A-/Stable/A-2 | 3.5 |
| United Energy Ltd. | A-/CW-Neg/A-2 | 4.5 |
| Korea Electric Power Corp. | Foreign currency | |
| | A-/Stable/A-2 | 5 |
| Tenaga Nasional Berhad | BBB/Stable/— | 6 |
| TXU Electricity Ltd. | BBB/Stable/A-2 | N.A. |
| Contact Energy Ltd. | BBB/Stable/A-2 | 6.5 |
| Huaneng Power Inc. | Foreign currency | |
| | BBB/Stable/— | 6 |
| Electricity Generating Authority of Thailand | Local currency | |
| | BBB+/Stable/— | 6 |
| National Thermal Power Corp. (NTPC) | Foreign currency | |
| | BB/Negative/— | 6 |
| Tata Power Co. Ltd | Foreign currency | |
| | BB/Negative/— | 5 |
| Manila Electric Co. | Foreign currency | |
| | B-/Negative/— | 6 |

**Gas Credit Rankings**

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| **Europe/Middle East/Africa** | | |
| Gasunie (N.V. Nederlandse) | AAA/Negative/A-1+ | N.A |
| Gaz de France | AAA/CW-Neg/A-1+ | 2.5 |
| Transco PLC | A/Stable/A-1 | N.A |
| Centrica PLC | A/Stable/A-1 | N.A. |
| **Latin America** | | |
| Metrogas S.A. | D/—/— | 6 |
| **Asia/Pacific** | | |
| Osaka Gas Co. Ltd. | AA-/Negative/A-1+ | 3.5 |
| Australian Gas Light Co. (The) | A/Stable/A-1 | 3 |

**Water Credit Rankings**

| Company | Corporate Credit Rating | Bus. Prof. |
|---|---|---|
| **Europe/Middle East/Africa** | | |
| Thames Water PLC | A+/Negative/A-1 | 2.5 |
| Suez S.A. | A-/Stable/A-2 | 5 |
| **Asia/Pacific** | | |
| Sydney Water Ltd. | Local currency | |
| | AAA/Stable/A-1+ | 2.5 |
| | Foreign currency | |
| | AA+/Stable/A-1+ | |

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