

# Corporate Credit Ratings:

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## What Are They?

## What Are The Key Credit Factors In The Utility Sector?

# Relative Ranking

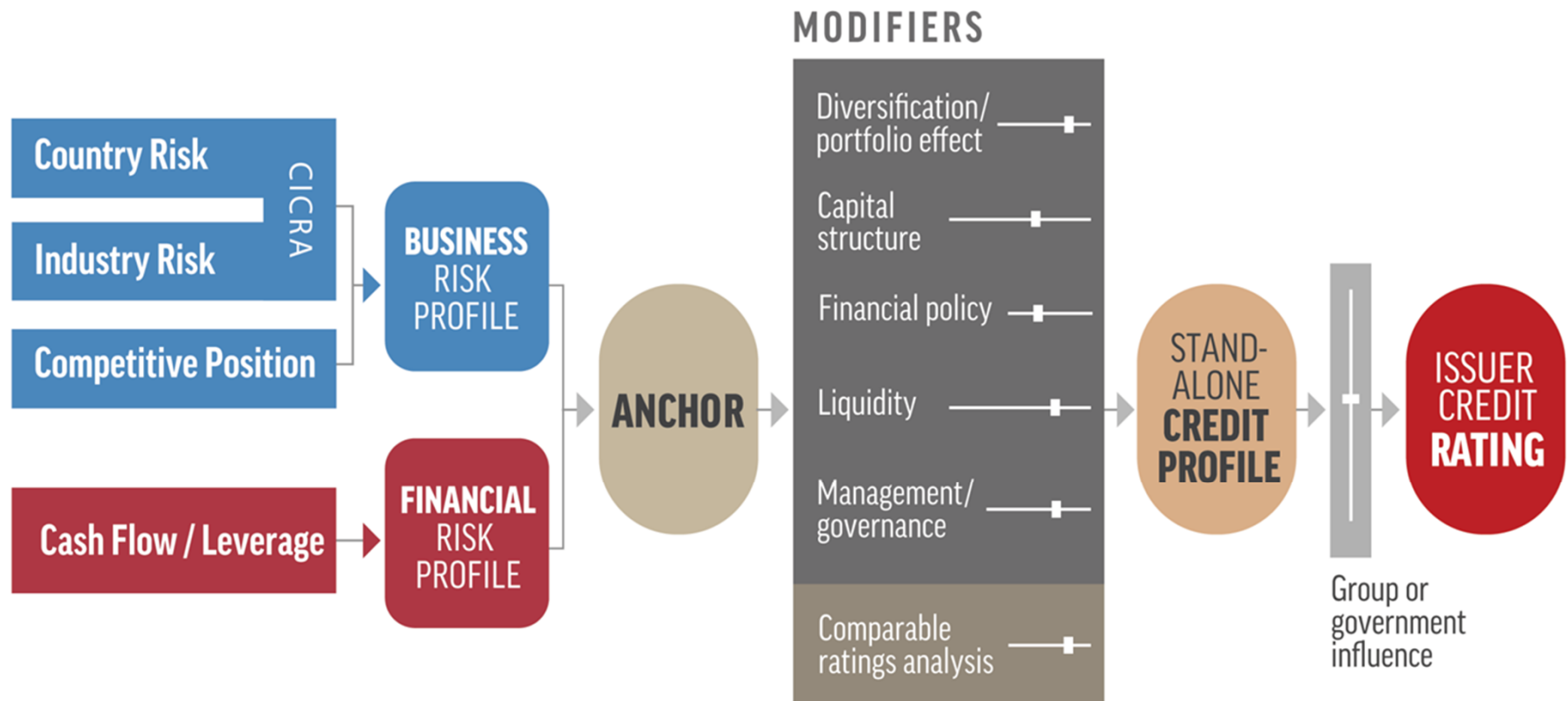
## Relative Rankings Among Issuers and Obligations Of Overall Creditworthiness

- Issuers and obligations with higher ratings are judged by us to be more creditworthy than issuers and obligations with lower credit ratings
- Higher ratings reflect our expectations that the rated issuer or obligation should default less frequently
- We associate each higher rating category with the ability to withstand successively more stressful economic environments, which we also view as less likely to occur

Forward-looking opinions about the creditworthiness of issuers and obligations

**Ratings are not a measure of absolute default probability.**

# Corporate Criteria Framework



# No Single "Magic" Factor For Utility Ratings

- Regulatory stability, transparency, and predictability are key to our business risk profile assessment as are: scale, scope, and diversity; operating efficiency; and profitability
- Participation in higher-risk regulated activities (generation) and nonregulated activities within the group can influence both the business and the financial risk assessment (and the financial benchmarks we use)
- Credit metrics -- both historic trends and our expectation for coming years -- are key to our financial risk profile assessment
  - **Thicker regulatory deemed equity layers and higher allowed equity returns can contribute to stronger cash flow leverage**
  - **Periods of higher capital spending can pressure credit metrics absent regulatory mitigants**
- Credit quality of consolidated group (holding company structure) and strategic relationship with parent can impact the final rating outcome for a subsidiary. Government ownership may also affect the rating.

# Thank you

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Ratings

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