

Article Title: ARCHIVE | Criteria | Corporates | Utilities: Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled, "Collateral Coverage And Issue Notching Rules For '1+' and '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property," published on Feb. 14, 2013.) In May 2007, Standard & Poor's Ratings Services invited interested parties to provide comments on our proposal to modify our criteria related to assigning ratings on first mortgage bonds (FMB) that are higher than a company's corporate credit rating (CCR). (See "Request For Comment: Proposed Update To U.S. Utility First Mortgage Bond Issue Ratings Criteria," published May 30, 2007, on RatingsDirect.) The last update to this methodology was in June 2004. There are two modest changes to the rating criteria: Additional clarity regarding the number of notches that an instrument with a recovery rating of '1' or '1+' can be assigned above the CCR for a given rating category; and A reduction of the collateral coverage required to achieve a '1+' recovery rating to 1.5x from 2x. We reviewed all of the rated outstanding FMB issues in conjunction with the methodology change. As expected with the lowering of the threshold for achieving the '1+' recovery rating, substantially all of the FMB ratings were either affirmed or raised. See the table in the "Rating Changes" section below for a list. Based on responses to the Request For Comment and subsequent discussions with utilities and interested parties, we believe the recommended changes simplify the criteria, enhance rating-process transparency for FMBs, and reduce the potential for inconsistent results. During this process, Standard & Poor's has also assigned recovery ratings to all rated FMBs issued by U.S. utilities and the two Canadian utilities with outstanding FMBs. Assigning Recovery Ratings To FMBs The decision whether to assign a utility's FMB rating above that of the CCR is a function of the issue recovery rating. We base the recovery rating on the ratio of collateral value relative to the maximum amount of FMBs that may be outstanding under the terms of the company's indenture. Standard & Poor's uses net utility assets as representative of the fair value for the assets pledged to the FMBs. We also consider other legally binding limitations on the issuance or outstanding amount of FMBs: Management's statement that it will not issue additional FMBs, perhaps because they are no longer considered the most effective source of funds, may lead Standard & Poor's to consider using only the current level of outstanding bonds for the recovery rating calculation. To the extent that a utility's regulators have placed stricter limitations than the FMB indenture, Standard & Poor's will incorporate these restrictions in our analysis. An issuer's indenture might allow for the issuance of a specific dollar amount of FMBs, but certain covenants unrelated to the indenture, such as a bank loan, could limit the company's issuance to a lesser amount. Standard & Poor's does not believe a requirement to notify the regulatory commission when leverage deviates above a specified level (as required by the California Public Utilities Commission, for instance) alone provides additional creditor protection. Similarly, we do not consider a requirement for regulators to approve additional issues of FMBs, as a meaningful limitation on the maximum amount that could ultimately be issued. We would expect utilities to request, and for the regulators to approve, additional FMBs if FMBs were the lowest-cost debt available. Our analysis does not attempt to predict the ultimate outcome of any bankruptcy proceeding, but it does compare the current level of collateral to the potential total amount of issuable FMB debt. With the extraordinary exception of Entergy New Orleans Inc. (which went bankrupt after Hurricane Katrina), all utilities that have filed for bankruptcy protection fulfilled their debt-service obligations on FMBs on a current basis. The prospect for recovery by secured creditors is supported by the utility's asset value when it emerges from bankruptcy, which is determined by the stream of future revenues that the utility's regulators approve. Regulators, or the bankruptcy court, have tended to set rates high enough for the utility to recover prudently incurred fixed and operating costs. As a result, there is a very high correlation between rate base and the assets' book value. In a payment default or stressed scenario, we believe the utility's valuation will be about equal to its book value, regardless of today's market value. If the ratio of collateral relative to the maximum amount of FMBs that may be outstanding under the company's indenture is at least 1.5x, we assign a recovery rating of '1+'. For entities that do not have at least 1.5x collateral coverage, we assign a recovery rating of '1'. A lower recovery rating could be assigned if the expected recovery for a speculative-grade issuer is materially less than 100%. However, such a scenario would not cause us to lower the default rating below the CCR. No utilities currently fall into this latter category. Assigning An FMB Issue Rating Above

The CCR The guidelines for assigning ratings for U.S. utility FMBs above the CCR are shown in table 1. (See "Recovery: Results Of Revisions To Recovery Rating Scale And Issue Level Rating Framework," published June 12, 2007, on RatingsDirect for the criteria related to assigning ratings that are higher than the CCR for secured debt other than FMBs.) Table 1 Issue Rating Criteria For U.S. Utility First-Mortgage Bonds Assets/potential secured debt (x) >1.5 <1.5 Recovery rating 1+ 1 NOTCHES ABOVE CORPORATE CREDIT RATING 'AA' category and higher 0 notches 0 notches 'A' category +1 notch 0 notches 'BBB' category +2 notches +1 notch Speculative grade +3 notches +2 notches Raising a rating above the CCR is supported by the first-priority lien on substantially all of the utility's property and franchises owned or thereafter acquired. Because of their essential nature, the value of utility assets is largely independent of the owner's financial condition. In addition to the asset protection, the mortgage indenture typically contains fairly restrictive covenants, including a limitation on the issuance of additional secured bonds based on asset coverage, interest coverage, and leverage tests. We don't assign ratings higher than the CCR for the FMBs of issuers in the 'AA' category and 'A' category with a recovery rating of '1' because we expect that the security provided under the FMB indenture is already reflected in the probability-of-default rating assigned to the issuer. Illustration Of Assigning Issue And Recovery Ratings To An FMB For this example, assume we are assigning issue and recovery ratings to a utility that has been assigned a CCR of 'A' and has the following capital structure: Net utility assets securing FMBs equal \$1.6 billion, Total assets equal \$3.1 billion, FMBs authorized under the company's indenture equal \$1.5 billion, FMBs available to be issued, including retired bond credits, given covenant limitations equal \$960 million (This would be consistent with a covenant that allows the FMBs outstanding to equal only 60% of the assets pledged under the indenture.), and FMBs outstanding equal \$750 million. Based on the ratio of assets pledged to the FMBs to the authorized amount of FMBs that could be issued, overcollateralization is 1.67x (\$1.6 billion divided by \$960 million). Given this coverage, we would assign our '1+' recovery rating and a secured debt rating of 'A+' to the FMBs. Rating Changes Table 2 summarizes our rating changes/affirmations resulting from our criteria modification. Table 2 List Of Issuers With First Mortgage Bonds Outstanding FMB RATING/RECOVERY RATING REVISED ISSUER CORPORATE CREDIT RATING AS OF SEP. 4, 2007 NO CHANGE TO ISSUE RATING TO FROM PRIMARY ANALYST* ALLETE Inc. BBB+/Stable/A-2 X A-/Rec Rtg 1 A-/Rec Rtg 1 Jepsen Aqua Pennsylvania Inc. A+/Stable/-- X AA-/Rec Rtg 1+ AA-/Rec Rtg -- Farer Atlantic City Electric Co. BBB/Stable/A-2 X BBB+/Rec Rtg 1 BBB+/Rec Rtg 1 Jepsen Atmos Energy Corp. BBB/Positive/A-2 X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Farer Avista Corp. BB+/Positive/B-1 BBB+/Rec Rtg 1+ BBB-/Rec Rtg 1 Selting Baltimore Gas & Electric Co. BBB+/Negative/A-2 X A/Rec Rtg 1+ A/Rec Rtg 1+ Shipman Black Hills Power Inc. BBB-/Stable/-- X BBB/Rec Rtg 1 BBB/Rec Rtg 1 Carrillo Carolina Power & Light Co d/b/a Progress Energy Carolinas Inc BBB+/Stable/A-2 A-/Rec Rtg 1 BBB+/Rec Rtg 1 Nikas CenterPoint Energy Houston Electric LLC BBB/Positive/-- BBB+/Rec Rtg 1 BBB/Rec Rtg 1 Nikas Central Illinois Public Service Co. BB/Positive/-- BBB/Rec Rtg 1+ BBB-/Rec Rtg 1+ Eiseman Central Vermont Public Service Corp. BB+/Stable/-- BBB+/Rec Rtg 1+ BBB/Rec Rtg 1 Eiseman Cleveland Electric Illuminating Co. BBB/Stable/-- BBB+/Rec Rtg 1 BBB/Rec Rtg 1 Shipman Colonial Gas Co. A-/Stable/-- X A/Rec Rtg 1+ A/Rec Rtg -- Kennedy Commonwealth Edison Co. BB/Positive/B BBB/Rec Rtg 1+ BBB-/Rec Rtg 1 Shipman Connecticut Light & Power Co. BBB/Stable/-- X BBB+/Rec Rtg 1 BBB+/Rec Rtg 1+ Kennedy Consumers Energy Co. BBB-/Stable/-- X BBB/Rec Rtg 1 BBB/Rec Rtg 1 Kennedy Dayton Power & Light Co. BBB/Stable/-- A-/Rec Rtg 1+ BBB+/Rec Rtg -- Shipman Delmarva Power & Light Co. BBB/Stable/A-2 A-/Rec Rtg 1+ BBB+/Rec Rtg 1 Jepsen Detroit Edison Co. BBB/Stable/A-2 A-/Rec Rtg 1+ BBB+/Rec Rtg 1 Kennedy Duke Energy Carolinas LLC A-/Stable/A-2 X A/Rec Rtg 1+ A/Rec Rtg 1 Nikas Duke Energy Indiana Inc. A-/Stable/A-2 X A/Rec Rtg 1+ A/Rec Rtg -- Nikas Duke Energy Ohio Inc. A-/Stable/A-2 X A/Rec Rtg 1+ A/Rec Rtg -- Nikas Empire District Electric Co. BBB-/Stable/A-3 X BBB+/Rec Rtg 1+ BBB+/Rec Rtg 1+ Eiseman Entergy Arkansas Inc. BBB/Stable/-- X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Nikas Entergy Gulf States Inc. BBB/Stable/-- X BBB+/Rec Rtg 1 BBB+/Rec Rtg 1 Nikas Entergy Louisiana LLC BBB/Stable/-- X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Nikas Entergy Mississippi Inc. BBB/Stable/-- X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Nikas Entergy New Orleans Inc. BBB-/Stable/-- BBB+/Rec Rtg 1+ BBB-/Rec Rtg 1+ Nikas Florida Power & Light Co. A/Stable/A-1 X A/Rec Rtg 1 A/Rec Rtg 1 Shipman Florida Power Corp d/b/a Progress Energy Florida Inc BBB+/Stable/A-2 A-/Rec Rtg 1

BBB+/Rec Rtg 1 Nikas Gaz Metro Inc. A-/Negative/-- X A/Rec Rtg 1+ A/Rec Rtg 1 Martin Green Mountain Power Corp. BBB/Stable/-- A-/Rec Rtg 1+ BBB/Rec Rtg -- Eiseman Idaho Power Co. BBB+/Negative/A-2 A/Rec Rtg 1+ A-/Rec Rtg 1 Bettinelli Illinois Power Co. BB/Positive/-- X BBB-/Rec Rtg 1 BBB-/Rec Rtg 1+ Eiseman Indianapolis Power & Light Co. BB+/Positive/-- BBB/Rec Rtg 1 BBB-/Rec Rtg 1 Eiseman International Transmission Co. BBB/Positive/-- X BBB+/Rec Rtg 1 BBB+/Rec Rtg -- Jepsen Laclede Gas Co. A/Stable/A-1 X A/Rec Rtg 1 A/Rec Rtg 1 Farer Madison Gas & Electric Co. AA-/Stable/A-1+ AA-/Rec Rtg 1+ AA/Rec Rtg 1+ Jepsen Maritime Electric Co. Ltd. BBB+/Stable/-- A/Rec Rtg 1+ A-/Rec Rtg 1+ Freitag MDU Resources Group Inc. BBB+/Stable/A-2 X A-/Rec Rtg 1 A-/Rec Rtg 1 Harvey Michigan Consolidated Gas Co. BBB/Stable/A-2 BBB+/Rec Rtg 1 BBB/Rec Rtg -- Kennedy Monongahela Power Co. BBB-/Stable/-- BBB+/Rec Rtg 1+ BBB/Rec Rtg 1 Jepsen Nicor Gas Co. AA/Negative/A-1+ X AA/Rec Rtg 1+ AA/Rec Rtg 1 DeCesare North Shore Gas Co. A-/Negative/-- A/Rec Rtg 1+ A-/Rec Rtg 1 Kennedy Northern States Power Co. BBB/Stable/A-2 X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Jepsen Northern States Power Wisconsin BBB+/Stable/-- A/Rec Rtg 1+ A-/Rec Rtg 1+ Jepsen Northwest Natural Gas Co. AA-/Stable/A-1+ X AA-/Rec Rtg 1+ AA-/Rec Rtg -- DeCesare NorthWestern Corp. BB+/Stable/-- BBB/Rec Rtg 1 BBB-/Rec Rtg 1 Bettinelli NSTAR Gas Co. A+/Stable/-- AA-/Rec Rtg 1+ A+/Rec Rtg 1 Eiseman PacifiCorp A-/Stable/A-1 X A-/Rec Rtg 1 A-/Rec Rtg 1 Selting PECO Energy Co. BBB+/Stable/A-2 A/Rec Rtg 1+ A-/Rec Rtg 1 Shipman Pennsylvania Power Co. BBB/Stable/-- A-/Rec Rtg 1+ BBB+/Rec Rtg 1 Shipman Peoples Gas Light & Coke Co. (The) A-/Negative/A-2 X A-/Rec Rtg 1 A-/Rec Rtg 1 Kennedy Portland General Electric Co. BBB+/Negative/A-2 A/Rec Rtg 1+ BBB+/Rec Rtg 1+ Selting Potomac Edison Co. BBB-/Stable/-- BBB+/Rec Rtg 1+ BBB/Rec Rtg -- Jepsen Potomac Electric Power Co. BBB/Stable/A-2 X BBB+/Rec Rtg 1 BBB+/Rec Rtg 1 Jepsen PPL Electric Utilities Corp. A-/Stable/A-2 X A-/Rec Rtg 1 A-/Rec Rtg 1 Jepsen Providence Gas Co. ¶ NR/--/-- X A/Rec Rtg 1+ A/Rec Rtg -- Kennedy Public Service Co. of Colorado BBB/Stable/A-2 X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Jepsen Public Service Co. of New Hampshire BBB/Stable/-- BBB+/Rec Rtg 1 BBB/Rec Rtg 1 Kennedy Public Service Electric & Gas Co. BBB/Stable/A-2 X A-/Rec Rtg 1+ A-/Rec Rtg 1 Shipman Puget Sound Energy Inc. BBB-/Stable/A-3 BBB+/Rec Rtg 1+ BBB/Rec Rtg -- Bettinelli Rochester Gas & Electric Corp. BBB+/Negative/-- A/Rec Rtg 1+ BBB+/Rec Rtg -- Kennedy San Diego Gas & Electric Co. A/Stable/A-1 X A+/Rec Rtg 1+ A+/Rec Rtg 1 Messer Sierra Pacific Power Co. BB-/Positive/-- X BB+/Rec Rtg 1 BB+/Rec Rtg 1 Selting South Carolina Electric & Gas Co. A-/Stable/A-2 X A-/Rec Rtg 1 A-/Rec Rtg 1 Nikas South Jersey Gas Co. BBB+/Stable/-- X A/Rec Rtg 1+ A/Rec Rtg -- Farer Southern California Edison Co. BBB+/Stable/A-2 A/Rec Rtg 1+ BBB+/Rec Rtg 1 Selting Southern California Gas Co. A/Stable/A-1 X A+/Rec Rtg 1+ A+/Rec Rtg 1+ Messer Southern Connecticut Gas Co. BBB+/Negative/-- A/Rec Rtg 1+ BBB+/Rec Rtg -- Kennedy Southern Indiana Gas & Electric Co. A-/Stable/-- X A/Rec Rtg 1+ A/Rec Rtg 1 DeCesare Southwestern Electric Power Co. BBB/Stable/-- X A-/Rec Rtg 1+ A-/Rec Rtg 1 Shipman System Energy Resources Inc. BBB/Stable/-- X BBB+/Rec Rtg 1 BBB+/Rec Rtg 1 Nikas Union Electric Co. d/b/a AmerenUE BBB-/Stable/A-3 BBB/Rec Rtg 1 BBB-/Rec Rtg 1 Eiseman Virginia Electric & Power Co. BBB/Positive/A-2 X A-/Rec Rtg 1+ A-/Rec Rtg 1+ Shipman West Penn Power Co. BBB-/Stable/-- BBB+/Rec Rtg 1+ BBB/Rec Rtg 1 Jepsen Westar Energy Inc. BBB-/Stable/-- BBB/Rec Rtg 1 BBB-/Rec Rtg 1 Eiseman Wisconsin Public Service Corp. A/Negative/A-2 X A+/Rec Rtg 1+ A+/Rec Rtg 1+ Kennedy *See Key Contact section of the report. ¶Subsidiary of Narragansett Electric Co. (A-/Stable/A-2). Key Contacts Table 3 Contact Information CREDIT ANALYST LOCATION PHONE E-MAIL Richard Cortright, Jr., Managing Director New York (1) 212-438-7665 richard_cortright@standardandpoors.com John W. Whitlock, Managing Director New York (1) 212-438-7678 john_whitlock@standardandpoors.com Michael Messer, Director New York (1) 212-438-1618 michael_messer@standardandpoors.com Todd Shipman, CFA, Director New York (1) 212-438-7676 todd_shipman@standardandpoors.com Kenneth L. Farer, Director New York (1) 212-438-1679 kenneth_farer@standardandpoors.com John Kennedy, Director New York (1) 212-438-7670 john_kennedy@standardandpoors.com Barbara Eiseman, Director New York (1) 212-438-7666 barbara_eiseman@standardandpoors.com Dimitri Nikas, Director New York (1) 212-438-7807 dimitri_nikas@standardandpoors.com Anne Selting, Director San Francisco (1) 415-371-5009 anne_selting@standardandpoors.com Ralph DeCesare, Director New York (1) 212-438-4682 ralph_decesare@standardandpoors.com Kenton Freitag, Director Toronto (1)

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