

Summary:

Greenville, Texas; Retail Electric

Primary Credit Analyst:

Theodore Chapman, Dallas (1) 214-871-1401; theodore_chapman@standardandpoors.com

Secondary Contact:

Peter V Murphy, New York (1) 212-438-2065; peter_murphy@standardandpoors.com

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Credit Profile

Greenville retail elec

Long Term Rating

A/Positive

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A' rating and underlying rating (SPUR) on Greenville, Texas' electric system revenue bonds. The outlook is positive.

The city is doing business as Greenville Electric Utility System (GEUS).

The ratings are based, in part, on:

- The start-up, nonregulated telecommunications business venture that now has a good record of positive net margins with no debt attached to the system; and
- The system's ability to restructure some of its fixed electric system costs by way of this transaction.

In addition, the rating continues to reflect what we believe are:

- The city's growing economy with a diverse employment base as well as peripheral access to some of Dallas' northern suburbs;
- The limited additional capital needs of GEUS with officials funding capital expenditures beyond this project from annual revenues, not debt;
- The system's good liquidity, buoyed by a variety of designated reserves and a fuel-cost adjustor to its electric system rates;
- The system's high fixed costs due to Texas Municipal Power Agency's (TMPA) off-balance-sheet debt associated with the Gibbons Creek coal-fired power plant, for which GEUS receives nearly 60% of its energy requirements; and
- The two leading customers, accounting for an above-average 23% of total revenues, which provides moderate dependence on those customers.

A first-lien pledge of net revenues of GEUS' electric and telecommunications system secures the bonds. We revised the outlook to positive in 2010 based on our expectation that GEUS' refinancing of some of its obligation to TMPA will enable it to improve its financial position. The TMPA-related debt was restructured past the original 2018 final maturity. The new peakers that were also funded in 2010 should provide GEUS with substantial operational savings and less reliance on market purchases, which management believes will also bolster net income.

In 2001, GEUS created a cable enterprise that later expanded to provide high-speed Internet services. Market penetration was much quicker than expected and the new venture became operationally break-even within a few years. The telecommunications system is currently debt-free and remains a positive, albeit small, contributor to GEUS' net income. Total on-balance-sheet obligations remain modest with the current electric peaking project the only debt-funded capital expenditure in management's forecast.

Rates are competitive at 5%-10% below state averages for all customer classes. Management implemented its first base rate increase in nearly 20 years in fiscal 2010, and plans another increase in the next four to five years. In addition to the regular power-cost adjuster, management also maintains significant designated reserves that help liquidity. The debt reduction fund primarily serves as a hedge against TMPA's slightly increasing fixed costs; and management designates the electric capital plan fund for pay-as-you-go projects, ultimately lawfully available. All told, this additional \$17 million of designated reserves in fiscal 2009, coupled with unrestricted cash, provided the system with six months' cash on hand, far in excess of the policy of maintaining 60 days of reserve funding. The two leading industrial customers accounted for a high 23% of the utility's revenues in 2009.

GEUS' fixed-charge coverage is consistently between 1.1x and 1.2x. We expect annual fixed-charge coverage to improve slightly, generally to 1.2x or better annually, because of the TMPA debt restructuring.

Located 45 miles northeast of Dallas, Greenville benefits from its access to the Dallas Metroplex. The local employment base, centered on the city's municipal airport, has been growing. The leading employer is L3 Communications, formerly Raytheon. The economy continues to grow due mainly to commercial and residential development. The city's median household effective buying income is a low 85% of the national average.

Outlook

The positive outlook reflects our expectation of a continued favorable financial performance, including fixed-charge coverage, due to the system's limited capital needs, ability to restructure a portion of GEUS' obligations to TMPA, and demonstrated willingness to adjust rates. We would consider a higher rating based on the sustainability of a stronger financial performance driven by these factors.

Related Criteria And Research

USPF Criteria: Electric Utility Ratings, June 15, 2007

Ratings Detail (As Of April 4, 2011)		
Greenville elec util ser 2001 <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Greenville elec (AGM) (SEC MKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Greenville retail elec <i>Long Term Rating</i>	A/Positive	Affirmed
Many issues are enhanced by bond insurance.		

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