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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION ) CASE NO. VEO-W-22-02**  
**OF VEOLIA WATER IDAHO, INC. FOR )**  
**AUTHORITY TO INCREASE ITS RATES )**  
**AND CHARGES FOR WATER SERVICE IN )**  
**THE STATE OF IDAHO )**  
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBIT NO. 18 TO ACCOMPANY THE  
REBUTTAL TESTIMONY OF JAMES CAGLE

Research Update:

# SUEZ Water Resources LLC And Subsidiary Ratings Raised To 'A' Following Updated Methodology; Ratings Off UCO

September 5, 2019

## Rating Action Overview

- We have reviewed our ratings on SUEZ Water Resources LLC (SWR) and its subsidiary SUEZ Water New Jersey Inc. (SWNJ) that we labeled as "under criteria observation" (UCO) after publishing our revised Group Rating Methodology criteria on July 1, 2019.
- Following this review, we established that the cumulative value of the structural protections in place between SWR and ultimate parent SUEZ S.A. (SEV) are sufficient to insulate our issuer credit rating on SWR from the credit profile of ultimate parent SEV.
- As such, we are raising our long-term issuer credit ratings on SWR and SWNJ to 'A' from 'A-' and are removing our ratings on both companies from UCO.
- We are also raising our issue-level ratings on SWR's senior unsecured debt and SWNJ's secured debt to 'A' from 'A-'.
- At the same time, we are revising our stand-alone credit profile (SACP) on SWNJ to 'aa' from 'aa-', consistent with management's strategy to gradually reduce its debt at the SWNJ utility level. Because of the absence of insulating measures between SWNJ and SWR, the ratings on SWNJ are equalized with those on SWR.
- The stable outlooks largely reflect our view of SWR's low-risk, rate-regulated water and wastewater utility operations as well as our expectation that management will continue to reach constructive regulatory outcomes and avoid any meaningful rise in business risk. The outlooks also reflect our base-case forecast of adjusted funds from operations (FFO) to debt of about 13%-16% over the next few years.

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## Rating Action Rationale

The upgrades follow our review of our ratings on SWR and SWNJ under our revised Group Rating Methodology criteria, which we published on July 1, 2019. Following this review, we removed our ratings on the companies from UCO.

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Under our revised criteria, we view the strength of SWR's SACP, as well as the cumulative value of structural protections in place that insulate SWR from SEV, as reason to warrant the upgrades. Our analysis of the insulating measures takes into account the following:

- The intermediary holding company between SWR and SEV (SUEZ Utility Holdings Inc.) is a separate legal entity with its own capital structure, maintains its own records, does not commingle funds, assets, or cash flows with the rest of the SEV group, and does not participate in a money pool with the rest of the SEV group;
- SWR has its own credit facility and debt arrangements and has operations that are separate from the rest of the SEV group;
- We believe there is a strong economic basis for the SEV group to preserve the credit strength of SWR, reflecting SWR's low risk, profitable, and regulated operations;
- PGGM is a significant minority shareholder of SUEZ Utility Holdings Inc. and has an active economic interest with board member representation;
- The governance rights in place for PGGM surrounding matters such as dividend distributions and voluntary bankruptcy filings support our view that there are independent directors who have effective influence on decision making;
- Anti-dilutive measures in place to ensure that PGGM can maintain its economic interest at current levels; and
- There are no cross-default provisions between the rest of the SEV group and SUEZ Utility Holdings Inc. (or its subsidiaries) and the minority shareholder's governance rights supports our opinion that a default at SEV would not directly lead to a default at SWR or its subsidiaries.

While we assess the above structural insulating measures as sufficient to insulate the ratings on SWR from the group credit profile by as many as three notches, we are upgrading SWR one notch above the group credit profile because the issuer credit rating on SWR is limited by its SACP. We rate SWNJ in line with SWR since we consider it to be an integral and fully supported subsidiary of SWR that is dependent on SWR for its financing arrangements. Furthermore, we deem SWR to be a strategically important subsidiary of SEV.

Our assessment of SWR's and SWNJ's business risk profiles are based on both entities' lower-risk and rate-regulated water and wastewater utility businesses. SWR serves about 2.1 million customers across New Jersey, New York, Delaware, Rhode Island, Pennsylvania, and Idaho, whereas SWNJ serves about 1.2 million customers in New Jersey and New York. We view both companies' management of regulatory risk as above average, partially reflecting the extensive use of constructive regulatory mechanisms, including distribution system improvement charge (DSIC) riders, a revenue decoupling mechanism, and multiyear rate plans in certain jurisdictions. Under our base-case scenario, we expect that the companies will continue to effectively manage regulatory risk, in part due to the frequency of rate case filings, and will continue to use riders that we collectively view as favorable for both companies' credit quality.

We assess SWR's and SWNJ's financial risk profiles using our low-volatility financial benchmark table, which reflects the companies' lower-risk, regulated utility businesses, and effective management of regulatory risk. Under our base-case scenario for SWR of capital spending averaging about \$300 million-\$350 million through 2021, dividend payments to its owners commensurate with the company's capital structure, continued rate case filings, and further use of the DSIC, we expect SWR's FFO to debt to be 13%-16%, consistent with the lower end of the range for the intermediate financial risk profile category. This warrants our use of a negative comparable ratings analysis modifier, which results in a one-notch downward adjustment to the

company's SACP.

Given SWR's strategy to provide funding to SWNJ going forward without issuing debt at the SWNJ level, we expect financial measures at SWNJ to strengthen, indicative of the minimal financial risk profile category. Specifically, under our base-case scenario of capital spending that averages about \$200 million through 2021, continued rate case filings, and further use of the DSIC, we expect SWNJ's FFO to debt to consistently exceed 35%. However, given our holistic view of the company's business risk, financial risk, and dependence on SWR for financing needs, we utilize a negative comparable ratings analysis modifier to lower SWNJ's SACP by one notch.

## **Outlook**

The stable outlooks on SWR and SWNJ reflect our view of SWR's low-risk, rate-regulated water and wastewater utility operations as well as our expectation that management will continue to reach constructive regulatory outcomes and avoid any meaningful rise in business risk. The outlooks also reflect our base-case forecast of adjusted FFO to debt at SWR and SUEZ Utility Holdings Inc. of about 13%-16% over the next few years. Furthermore, the outlook reflects our expectation that the companies' unrated ultimate parent SEV will continue to maintain a diverse mix of businesses and financial measures that do not materially deviate from our current view of the overall group credit profile.

## **Downside scenario**

We could lower our ratings on SWR and SWNJ over the next 24 months if unrated intermediary holding company SUEZ Utility Holdings Inc.'s financial measures weakened such that we forecast FFO to debt to be consistently below 12%. We could also lower the ratings if the structural insulating measures currently in place weaken.

## **Upside scenario**

We could raise the ratings on SWR and SWNJ if SUEZ Utility Holdings Inc.'s financial measures strengthen, reflecting FFO to debt consistently greater than 16%.

## **Liquidity– SUEZ Water Resources LLC**

SWR has adequate liquidity in our view and can cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed uses by more than 1.1x. Under our stress scenario, we do not expect that SWR would require access to the capital markets to meet its liquidity needs. SWR also benefits from generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

### **Principal Liquidity Sources**

- Credit facility availability of about \$150 million;
- FFO of about \$205 million; and
- Proceeds from sale of assets of about \$5 million-\$10 million.

### **Principal Liquidity Uses**

- Long-term debt maturities of about \$5 million;
- Maintenance capital spending of about \$180 million; and
- Dividends to owners commensurate with the company's capital structure.

## **Liquidity– SUEZ Water New Jersey Inc.**

SWNJ has adequate liquidity in our view and can cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed uses by more than 1.1x. Under our stress scenario, we do not expect that SWNJ would require access to the capital markets to meet its liquidity needs. SWNJ also benefits from generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

### Principal Liquidity Sources

- FFO of about \$115 million; and
- Expected ongoing support from SWR as needed.

### Principal Liquidity Uses

- Minimal long-term debt maturities;
- Maintenance capital spending of about \$115 million; and
- Dividends to SWR commensurate with the company's capital structure.

## **Issue Ratings - Subordination Risk Analysis**

### **Capital structure**

SWR's capital structure includes close to \$975 million of consolidated senior unsecured debt, including about \$155 million of debt issued at SWNJ.

### **Analytical conclusions**

We rate SWR's senior unsecured debt 'A', in line with our issuer credit rating on the company, due to the lack of material priority debt in the company's capital structure.

We rate the senior secured debt at SWNJ 'A', as we view it as unsecured debt of a qualifying investment grade utility as per our criteria.

## **Ratings Score Snapshot– SUEZ Water Resources LLC**

Issuer Credit Rating

A/Stable/--

Business risk: Excellent

- Country risk: Very low

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- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: a

- Group credit profile: a-
- Entity status within group: Insulated

## **Ratings Score Snapshot– SUEZ Water New Jersey Inc.**

Issuer Credit Rating

A/Stable/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: aa+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: aa

- Group credit profile: a
- Entity status within group: Core (-3 notches below the SACP)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Environmental Services Industry, Feb. 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Upgraded

	To	From
<b>SUEZ Water Resources LLC</b>		
<b>SUEZ Water New Jersey Inc.</b>		
Issuer Credit Rating	A/Stable/--	A-/Stable/--
<b>SUEZ Water Resources LLC</b>		
Senior Unsecured	A	A-
<b>SUEZ Water New Jersey Inc.</b>		
Senior Secured	A	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating

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