



## Fitch Affirms Transmission Agency of Northern California, CA Revenue Bonds at 'A+'; Outlook Stable

Fitch Ratings-San Francisco-02 June 2017: Fitch Ratings has affirmed the following ratings for Transmission Agency of Northern California (TANC), CA revenue bonds at 'A+':

--\$42.3 million outstanding revenue bonds, series 2009A.

The Rating Outlook is Stable.

### SECURITY

The bonds are secured by revenues paid pursuant to project agreements with 13 member-participants, which provide for the full allocation of TANC's costs, including debt service.

### KEY RATING DRIVERS

**TRANSMISSION PROVIDER:** TANC provides electric transmission to its member agencies through the California-Oregon Transmission Project (COTP), 340 mile long, 500-kv AC transmission line running from Southern Oregon to Central California.

**MEMBER CREDIT QUALITY:** The rating the credit quality of the largest member systems in the project. The five largest members, accounting for 90% of the project, include Sacramento Municipal Utility District (SMUD; rated 'AA-'), Modesto Irrigation District (MID; rated 'A+'), Silicon Valley Power (SVP; rated 'A+'), Turlock Irrigation District (TID; rated 'A+'), and the City of Redding Electric System (Redding; rated 'A+').

**ESSENTIAL PROJECT:** The rating also reflects Fitch's view that the COTP is an essential transmission interconnection that delivers significant value to member-participants by providing the ability to import energy to California from suppliers in the Northwestern U.S., often hydroelectric and renewable generation resources.

**TAKE-OR-PAY CONTRACTS:** Bondholders are secured by absolute and unconditional "take-or-pay" agreements that extend for the life of the bonds with 13 of TANC's member-participants. The agreements provide additional security by including a 25% step-up provision in the event of a member default. Member-participant payments are made as operating expenses of their retail electric systems.

**STABLE FINANCIAL PROFILE:** TANC's financial profile remains stable with thin but adequate coverage levels and solid liquidity.

### RATING SENSITIVITIES

**Changes in Member Credit Quality:** The Transmission Agency of Northern California's rating will continue to depend on the underlying credit quality of the member-participants. Credit drivers for many of the member-participants include financial performance and timeliness of rate changes to recover costs associated with increasing amounts of renewable energy, meeting greenhouse gas emission targets, and other system-related capital improvements.

### CREDIT PROFILE

The COTP is an essential transmission interconnection that provides significant value to TANC's participating members by allowing them to import energy into California from the Pacific Northwest. The approximately 340 mile long, 500 kV transmission project runs between southern Oregon and central California and, along with the Pacific AC intertie, is an important part of the California-Oregon Interconnection. TANC owns approximately 86.9% of the COTP, which was put into service in March 1993.

### RATING DRIVEN BY MEMBER CREDIT QUALITY

The rating reflects the credit quality of the largest member-participants, which has seen steady improvement over the past several years. The largest five members include SMUD (rated 'AA-/Stable Outlook), MID (rated 'A+/Stable Outlook), SVP (rated 'A+/Positive Outlook), TID (rated 'A+/Stable Outlook), and Redding (rated 'A+/Stable Outlook). These five members account for 90.3% of the project.

### TAKE-OR-PAY MEMBER COMMITMENTS

TANC and the 13 member-participants have entered into project agreements, wherein each member-participant has agreed to pay for a percentage share of the project costs, including debt service. The project agreements constitute an absolute and unconditional take-or-pay obligation for each member-participant that extends for the life of the bonds. In the event of project disruption or damage, member-participants are obligated to continue payments under the project agreements. The unconditional nature of the obligation mitigates the single asset risk of the project.

Project agreements include a 25% step-up provision, which would reallocate the payment default by any member-participant to the remaining non-defaulting member-participants. Member-participant payments are made as operating expenses of their retail electric systems and each member-participant has covenanted in the project agreements to establish and maintain rates sufficient to meet its obligations under the project agreement.

### STABLE FINANCIAL METRICS

As a joint action agency, TANC is designed to operate at, or near, the break-even point financially. Fitch-calculated debt-service coverage was 1.53 times in fiscal 2016. Liquidity levels were viewed as solid with 532 days cash on hand.

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**Applicable Criteria**

Revenue-Supported Rating Criteria (pub. 16 Jun 2014) (<https://www.fitchratings.com/site/re/750012>)  
U.S. Public Power Rating Criteria (pub. 18 May 2015) (<https://www.fitchratings.com/site/re/864007>)

**Additional Disclosures**

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