

## **FITCH AFFIRMS PUB GAS PARTNERS' (GA) POOL 1 GAS REVS SERIES A AT 'A'; OUTLOOK STABLE**

Fitch Ratings-New York-26 August 2013: Fitch Ratings affirms the 'A' rating on Public Gas Partners, Inc.'s (PGP) series A gas project revenue bonds (gas supply pool no. 1).

The Rating Outlook is Stable.

### **SECURITY**

The bonds are secured by the unconditional take-or-pay obligation of the pool's members to pay all project costs, including debt service, as well as other funds held by the trust estate.

### **KEY RATING DRIVERS**

**UNCONDITIONAL PRODUCTION SHARING AGREEMENTS:** The rating of PGP Gas Supply Pool No. 1 is supported by production sharing agreements (PSAs) with four participating members, which unconditionally obligates each to pay for its proportionate share of project costs, including debt service, as an operating expense.

**SOLID PARTICIPATING MEMBERS:** The participating members all exhibit solid financial metrics, including the two largest - the Municipal Gas Authority of Georgia (MGAG rated 'A+'; Stable Outlook by Fitch) and the Southeast Alabama Gas District - which together account for 86.7% of the series A bond obligations. The remaining participating members are the Patriots Energy Group and the Tennessee Energy Acquisition Corporation.

**CAPABLE OPERATING MANAGEMENT:** MGAG manages and operates all three of PGP's gas supply pools, including Pool No. 1. Fitch views MGAG as a very capable operator.

**WEAKENED PROJECT ECONOMICS:** The economics of the Pool No. 1 project have weakened since the reserves were acquired due to the dramatic decline in the price of natural gas. However, the current rating continues to reflect the unconditional obligation of the members despite the above-market cost of gas purchased from the Pool.

**INCREASED MGAG PARTICIPATION:** The Lower Alabama Gas District assigned its participation share in Pool No. 1 to MGAG on May 13, 2013, increasing MGAG's share of debt service on the bonds to 63.8% from 59.5%. While the assignment slightly increases the credit quality of the participant pool, there is no immediate effect on the rating of the bonds.

### **RATING SENSITIVITIES**

**CHANGE IN PARTICIPATING MEMBER RATINGS:** The long-term rating on the PGP bonds will continue to reflect the credit of the underlying participating members, specifically two largest participants, MGAG and SEAGD, whose default could not be restored by the required 25% step up provisions.

### **CREDIT PROFILE**

PGP is a joint action agency whose purpose is to secure gas supplies through acquisition and development of natural gas reserves for its members, which include all of the Pool 1 participating members plus the Florida Municipal Power Agency and National Public Gas Agency. Members elect to participate in specific pools and agree to pay their proportion of the full cost of acquiring and managing the related assets regardless of the reserve's performance.

PGP has undertaken three separate gas supply pools - Pool 1 (2004), Pool 2 (2005) and Pool 3 (2009) - each of which is owned by a separate limited liability company and supported by individual PSAs. All of the pools acquire and manage gas supplies for the respective participating members of each pool.

Pool 1 consists of working interests and royalty interests in over 3,000 producing oil and gas wells located in sixteen states stretching from Alabama to California. As of June 30, 2013, the interests were estimated to contain approximately 80 Bcfe of natural gas reserves, of which 50 Bcfe (62.5%) was classified as proved, developed and producing (PDP). Pool 1 has been closed to new acquisitions since June 30, 2008, but the development of existing interests is expected to continue.

The production from Pool 1 accounts for varying portions of the member's overall supply. The members are joint action agencies and generally pursue similar strategies of locking into a portion of their supply long-term through prepaids and reserves, and purchasing the remainder seasonally or daily for their members and taking advantage of economies of scale.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope.

Applicable Criteria and Related Research:

--'U.S. Public Power Peer Study'(June 13, 2013);  
--'U.S. Public Power Rating Criteria'(Dec. 18, 2012).

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U.S. Public Power Peer Study Addendum -- June 2013  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=710641](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=710641)  
U.S. Public Power Rating Criteria  
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