

Aqua Pennsylvania Inc. 'A+' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Safina Ali, CFA, New York (1) 212-438-1877; safina.ali@spglobal.com

Secondary Contact:

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@spglobal.com

- We base our ratings on Aqua Pennsylvania Inc. on the very low business risk and steady financial performance of its parent, Aqua America Inc. (unrated).
- We affirmed the 'A+' issuer credit rating on Aqua Pennsylvania Inc. The outlook is stable.
- We revised our management and governance assessment on Aqua Pennsylvania to satisfactory.
- The stable rating outlook over the next two years on Aqua Pennsylvania Inc. reflects our expectation of sustained solid consolidated financial measures of parent Aqua America Inc., steady operating performance, and the company's effective management of regulatory risk. Our baseline forecast for Aqua America includes funds from operations (FFO) to debt of about 17%-20%.

NEW YORK (S&P Global Ratings) Sept. 21, 2016--S&P Global Ratings today affirmed all its ratings on regulated water utility Aqua Pennsylvania Inc., including the 'A+' long-term issuer credit rating. The outlook is stable. Aqua Pennsylvania Inc. is a wholly owned subsidiary of Aqua America Inc. (unrated).

"The ratings on Aqua Pennsylvania [Aqua Penn] reflect the consolidated credit quality of its parent company, Aqua America Inc.," said S&P Global Ratings credit analyst Safina Ali. Aqua Penn accounts for more than one-half of consolidated Aqua America's revenues and EBITDA. Nonutility operations contribute less than 5% of consolidated revenue and EBITDA.

We assess Aqua Penn's business risk profile as excellent, reflecting its very

low risk U.S.-based regulated water and wastewater distribution operations; a supportive regulatory environment with favorable cost-recovery mechanisms that enhance cash flow predictability; a large, diversified residential and commercial customer base that provides stable revenues; and solid operations with a focus on cost control. The company's elevated capital spending requirements for infrastructure replacement, increasing costs of compliance with water quality standards, and a highly acquisitive growth strategy somewhat temper the company's strengths. After considering the supportive cost recovery and strong regulatory framework and effective management of regulatory risk, we assess the business risk profile as being toward the high end of the category.

Our assessment of Aqua Penn's financial risk profile as intermediate is based on the low-volatility financial ratio benchmarks. Use of low-volatility financial benchmarks is based on the company's low-operating-risk water distribution business and its effective management of regulatory risk compared with peers. Timely rate relief and balanced financing of its growth strategy support Aqua's intermediate financial profile. Our baseline forecast results in adjusted FFO to debt of 17%-20%.

We revised our management and governance assessment on Aqua Penn to satisfactory from strong. This revision aligns our management and governance assessment on the company with those of peers and reflects our view of management's generally consistent strategy and ability to typically execute on it.

The stable rating outlook over the next two years on Aqua Penn reflects our expectation of sustained solid consolidated financial measures of parent Aqua America Inc., steady operating performance, and the company's effective management of regulatory risk. Our baseline forecast for Aqua America includes FFO to debt of about 17%-20%.

We could lower the ratings on Aqua Pennsylvania if the credit quality of the group declines including weakening business risk profile as a result of material expansion into the riskier non-utility operations or adverse regulatory outcomes. In addition, a worsening financial risk profile from weaker operating cash flow or greater debt leverage within the group could also lead to lower ratings. Specifically, we could lower the ratings if FFO to debt falls to less than 14% for Aqua America on a sustained basis.

Although less likely, we could raise the rating if FFO to debt for Aqua America consistently strengthened to greater than 22%, which could result from an improvement in the economy or deleveraging.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.