

Announcement: Moody's: Growing cybersecurity risk underscores importance of preparedness for public power electric utilities

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New York, June 19, 2017 -- Preparedness for a cyber attack strengthens a public power electric utility's credit profile because it indicates grid resilience and quality of management, according to a report from Moody's Investors Service. The report, "Public Power Electric Utilities -- US: Growing grid interconnectivity increases cybersecurity risks," examines cyber-related risks and mitigants for public power electric utilities.

"In our role as credit analysts, we are seeing public power electric utilities engage in contingency planning that can increase their electric system's durability," says Gaurav Purohit, a Moody's analyst and the lead author of the report. "These measures provide strengthened grid reliability, reduce the potential for a loss in revenue and indicate strong management and governance quality."

While Moody's does not explicitly incorporate cyber risk as a principal factor in its credit ratings, the rating agency regards the threat of a cyber attack as an event risk akin to a natural disaster or act of terrorism. Moody's fundamental credit analysis incorporates numerous stress-testing scenarios, and a cyber event could theoretically trigger one of those scenarios.

Increased interconnectivity and the rapid growth of smart devices and services has enabled new efficiencies in the grid, according to the report. However, the interconnected devices also allow for more points of entry for malicious activity.

The report details several adverse scenarios, including digital incursions through home appliances or smart meters, remote hacking of a utility's supervisory control and data acquisition system, and manipulation of distributed generation. While larger electric utilities have more resources to manage cybersecurity risks, their customer bases make them more attractive as targets for cyber attacks than their smaller counterparts.

Due to their unregulated ability to set customer rates, Moody's believes most rated public power electric utilities would be able to absorb additional expenditures from a cyber information breach. If a cyber attack caused a severe outage resulting in a much higher loss of revenue and litigation costs, the impact on a utility's credit profile could be more severe, depending on its size. Given the critical nature of energy infrastructure, federal and state governments could potentially intervene in the aftermath of a cyber attack, as in natural disasters, to provide assistance to offset financial losses, reducing the extent of rate hikes needed to recover a loss in revenues.

With the increased sophistication of cyber attacks, constantly-updated compliance standards and cooperation between utilities, regulatory bodies and federal agencies remain essential.

"Compliance frameworks cannot be expected to prevent all cyber attacks," says Purohit. "But given the importance of energy reliability to the nation's economy and security, cyber risk management has become a key consideration for the industry."

The report is available to Moody's subscribers at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072778 .

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