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Fitch Downgrades PA Econ Devel Financing Auth to 'BB+'; Outlook Stable

NEW YORK--(BUSINESS WIRE)--Fitch Ratings has downgraded Pennsylvania Economic Development Financing Authority's (the Colver Power Project, or Colver) approximately $169 million in series F resource recovery revenue refunding bonds (senior bonds) to 'BB+' from 'BBB-'. In addition, Fitch has revised the Rating Outlook to Stable from Negative. The downgrade is due to an increased cost profile that has pushed projected debt service coverage ratios (DSCR) below investment grade levels.

Key Rating Drivers

--Contractual Revenues Reliant on Strong Operations: The project relies on the ability of the operator to maintain high availability and capacity factors in order to maximize payments under the power purchase agreement (PPA), capture the benefit of excess energy sold at the local marginal price (LMP) and provide revenue stability. LMP sales, despite their variability in price and small percentage relative to total revenues, help to add cushion to the cash flow profile.

--Operating Margin Subject to Cost Control: Despite 75% of coal under contract, the project is exhibiting decreased cash flow due to increased operating costs. Such decreased margins result in lower DSCRs that push the project out of the investment grade rating category.

--Uncertain Emissions Control Regulations: The project has historically monitored emissions levels and controls in order to maintain compliance with environmental regulations. Any new regulations may impose additional costs on the project in the long term and could further reduce cash flow.

What Could Trigger a Rating Action

--Further Increase to Operating Costs: Increased fuel, ash or plant operating expenses above the current elevated level could lead to a downgrade;

--Availability Shortfall: Any extended outage resulting in decreased availability and reduced cash flow would negatively impact credit quality;

--Additional Environmental Restrictions: More stringent emissions regulations than currently contemplated under CSAPR could increase the project's cost burden.

Security

The senior bonds are secured by a first-priority interest in all project revenues, a lien on all of the project assets, and security interests in the contract rights of the PPA.

Credit Update

The overall cost profile has climbed steadily over the life of the project. Higher commodity costs, especially diesel, have led to a significant increase in plant operating costs, which rose 17% during 2011 and are expected to increase again in 2012. DSCR for 2012 is expected to fall to 1.10 times (x) from 1.44x in 2011 due largely to an increase in fuel transportation and ash disposal costs, tied to the price of diesel, as well as increased equipment and site maintenance expenses as a component of fuel and ash costs. The DSCR profile going forward is expected to remain between 1.0x and 1.30x through the life of the debt.

Favorably, 2011 plant availability was 95.1%, in line with the base case expectation of 94.9%. Fitch notes that Colver has consistently achieved near 100% dispatch over the last three years, resulting in consistent energy deliveries and growing revenue. The strong operational performance of the plant helps to maintain stable revenues.

The project currently utilizes low-cost limestone to reduce SO2 emissions and, based on short-term tests, expects to meet the cross state air pollution rulerequirements through the use of additional limestone without additional capital expenditures. The project sponsor is also exploring other means of SO2 reduction in the event that limestone injections are insufficient.

The Colver Project consists of a nominal 111.15 megawatt waste coal-fired qualifying facility located on a 62-acre site in Cambria, Pennsylvania. The project also includes a

9.6-mile, 115-kilovolt transmission line interconnecting with the Penelec Glory Substation. The Colver facility began commercial operations on May 16, 1995. The senior bonds were issued on behalf of an owner-participant as part of a leveraged-lease transaction. Colver's sponsor is a limited partnership, Inter-Power/AhlCon Partners, which is held by subsidiaries of Constellation Energy Group ('BBB+' following the merger with Exelon) and Northern Star Generation.

Under the terms of the PPA, Penelec pays flat rates on annual energy up to 278 gigawatt-hours (GWh) of on-peak production and 501 GWh/year off-peak production. Penelec purchases excess energy, produced in excess of caps above, at the posted hourly local marginal price or day-ahead of PJM Interconnectedness, LLC.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance' (Aug. 16, 2011);

--'Rating Criteria for Thermal Power Projects' (June 20, 2011).

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Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648832

Rating Criteria for Thermal Power Projects

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=639073

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