# Fitch Affirms Astoria Power Project Trust's Series A, B, and C Certificates; Outlook Stable

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CHICAGO--(BUSINESS WIRE)--Fitch Ratings has affirmed the ratings for Astoria Power Project Pass-Through Trust's (Astoria) series A, B, and C certificates as follows:

--$515 million series A certificates due 2016 at 'BBB-';

--$210 million series B certificates due 2021 at 'BB';

--$69.5 million series C certificates due 2021 at 'BB-'.

The Rating Outlook is Stable for each series.

The affirmation reflects Astoria's operational stability and the continued prospect of gradual improvement in the NYISO energy and capacity markets. Fitch believes that Astoria's ratings adequately reflect each respective tranche's probability of default given the power purchase agreement's (PPA) floor pricing and the structural features of the debt. Manageable post-PPA leverage levels, the anticipated market price recovery, and the estimated 20 years of remaining useful life help mitigate refinancing risk.

KEY RATING DRIVERS

Revenue Risk: Midrange

Contracted Price Floor: The PPA with an investment-grade counterparty provides for a capacity and energy price floor that supports the payment of scheduled debt service through 2016. Fitch recognizes that the price floor reduces the potential for revenue volatility, but cash flow remains subject to the risk of operational shortfalls or increased costs. Astoria's strong competitive position in the NYISO Zone J, historically among the most capacity constrained markets in the U.S., helps mitigate dispatch risk and enhances capacity and energy price prospects during the post-2016 merchant period.

Debt Structure: Midrange (series A); Weaker (series B & C)

Manageable Refinance Risk: Astoria's fixed rate debt is subject to refinance risk due to the first lien target amortization profile and second lien payment-in-kind feature. Fitch believes that the debt structure provides financial flexibility and reduces the probability of default in a low market price environment. Fitch views the estimated leverage of approximately 2.5 times (x) cash flow available for debt service at the first lien maturity date as a refinance risk mitigant.

Operating Risk: Midrange

Solid Operating Profile: The project utilizes conventional, proven combined cycle technology and has demonstrated relatively stable operating performance over the past five years. Astoria has effectively managed costs and realized nearly 25% cost-savings, resulting in an operating cost profile of $45 per kW consistent with the lower end of the range for comparable projects. Astoria remains exposed to potential increases in O&M and/or emissions costs. Energy sales are subject to an implied heat rate factor under the PPA and a competitive dispatch position will be essential during the merchant period, increasing the importance of operational stability and efficiency.

Supply Risk: Midrange

Minimal Supply Risk: Astoria procures natural gas under a long-term contract with an investment-grade counterparty. Fitch believes that supply risk is mitigated by the competitive and highly liquid nature of the natural gas fuel market and Astoria's dual-fuel capability and on-site oil reserves.

Financial Metrics

Adequate Projected Coverage Ratios: The Fitch rating case projects scheduled series A debt service coverage ratios (DSCRs) in excess of 1.2x and series B and C DSCRs near breakeven levels throughout the PPA period. The Fitch base case forecasts a similar DSCR profile given the continued payment of PPA energy floor prices and relatively weak energy margins. Fitch expects more robust coverage during the merchant period in the Fitch base case due to an anticipated recovery in market capacity prices and spark spreads, an assumed long-term refinancing of the first lien balloon payment that reduces annual debt service requirements, and manageable medium-term leverage relative to Astoria's estimated 30 year useful life.

Peer Comparison: Fitch recognizes that Astoria's unique debt structure and PPA provisions do not provide for a direct comparison. The project's financial metrics during the PPA period fall somewhat below that of rated thermal peers, but the rapid amortization profile should allow for additional debt capacity during a refinancing and/or potentially strong DSCRs during the merchant period.

RATING SENSITIVITIES

Negative - Persistent Operational Challenges: Decreased project availability, frequent heat rate excursions, or an inability to effectively manage operating costs could impair the project's ability to refinance.

Negative - Structural Shift in Market Prices: Sustained weakness in market capacity prices and energy margins could erode the revenue and refinancing outlooks.

SECURITY

Astoria Depositor Corp. deposited with the trust a first and second lien loan executed by Astoria Energy LLC. The loans are secured by a first or second priority mortgage lien on the real estate, security interest in all of Astoria's personal property, including the PPA and other contracts, and a pledge of all accounts and the membership interests of Astoria Project Partners LLC in the project.

Astoria Power Project Pass-through Trust was formed to issue the certificates. The proceeds were used to purchase the rights, titles, and interests of Astoria's lender in Astoria Energy LLC's first and second lien loans and corresponding collateral. Each of the certificates represents a fractional interest in the trust.

Fitch views the credit quality of the series A certificates and series B certificates to be closely aligned to the credit quality of the first and second lien loans, respectively. Fitch considers the series C certificates to be structurally subordinated to the series A and B certificates given their position in the waterfall and lower priority in the event of foreclosure. Additionally, Fitch notes that the lien priorities would remain intact until full cash payment of the first lien principal and interest. This includes the commencement of a new first lien credit agreement.

TRANSACTION SUMMARY

Astoria has performed well above projections through Q3 2014 due to the extremely high margins on energy sales during the first quarter, when extraordinarily severe weather drove up electricity demand. Both PPA capacity payments and non-fuel operating costs have otherwise remained stable compared to the same period in 2013. The additional cash flow allowed Astoria to achieve financial metrics in excess of projections with a 1.63x DSCR on the first lien loan and a 1.23x DSCR on the second lien loan for the first half of 2014. The project also made a $7.1 million payment of target principal on the first lien loan, the first such payment since 2009.

The project's operating profile has generally returned to average historical levels following major outages in 2013 and 2014. NERC availability reached 89.9% and the heat rate remained stable at 7,306 btu/kWh through Q3 2014. However, the facility experienced a higher than normal forced outage rate and a lower capacity factor due to a steam turbine issue that was subsequently resolved in the spring outage, which was extended an additional two weeks.

Fitch believes that the project's anticipated merchant profile and the level of refinancing risk remain effectively unchanged. Fitch expects the project to receive energy prices generally consistent with the contracted price floor for the next two to three years due to continued market weakness. The Fitch base case indicates that first lien DSCRs should approach 1.20x with second lien DSCRs at breakeven levels in 2015.

Fitch understands that recent changes in Astoria's ownership have had no impact on day-to-day operations or project management. Mitsui purchased a 20.58%

ownership stake from GDF Suez in December 2013 and partnered with JEMB Realty and Harbert Management to acquire SNC-Lavalin's 12.35% ownership interest in October 2014. While GDF Suez is no longer majority owner, its economic interest remains the largest amongst the sponsor group.

Astoria Energy LLC (Astoria) was formed to develop, construct, own, and operate a 550MW natural gas- and diesel-fired power plant in Queens, New York. The facility provides electric generating capacity for NYISO's Zone J and sells the majority of its capacity and energy to Consolidated Edison (Fitch rated 'BBB+' with a Stable Outlook) under a PPA expiring May 2016. Thereafter, the project would operate as a fully merchant generator. The PPA's rate structure is priced at a 5% discount from the prevailing market price, which is subject to a floor for capacity and energy sales and a ceiling for capacity sales.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance' (July 11, 2012);

--'Rating Criteria for Thermal Power Projects' (July 30, 2014).

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Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867

Rating Criteria for Thermal Power Projects

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=753208

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=907434



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