Fitch Rates Grand River Dam Authority, (OK) 2016 Revs 'A+'; Outlook Stable

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AUSTIN, Texas--(BUSINESS WIRE)--Fitch Ratings has assigned an 'A+' rating to the following Grand River Dam Authority, OK (GRDA, or the authority) revenue bonds:

--$440,350,000 Series 2016A;

--$18,350,000 Series 2016B (Federally Taxable).

The bonds, with a final maturity of June 1, 2039 are scheduled to price via negotiation on Oct. 25, 2016. Bond proceeds will advance refund all or a portion of the outstanding 2008A, 2010A and 2014C bonds and pay costs incurred in connection with the sale and issuance of the 2016A and 2016B bonds (in aggregate, the 2016 bonds).

In addition, Fitch has upgraded the following ratings to 'A+' from 'A':

--$520,490,000 Series 2008A;

--$158,750,000 Series 2010A;

--$75,860,000 Series 2010B (Federally Taxable);

--$225,635,000 Series 2014A;

--$84,845,000 Series 2014B (Federally Taxable).

The Rating Outlook has been revised to Stable from Positive.

SECURITY

The 2016 bonds are secured by a senior lien on net revenues of the Grand River Dam Authority, including net transfers from the authority's rate stabilization account.

KEY RATING DRIVERS

SUSTAINED FINANCIAL PERFORMANCE: The rating upgrade reflects the recent improvement in GRDA's financial profile, as well as Fitch's expectation that the authority will sustain financial metrics supportive of the 'A+' rating category. A sizeable reduction in annual debt service obligations contributed to improved Fitch calculated debt service coverage of 1.90x in fiscal 2015. Financial projections through fiscal 2020 show debt coverage remaining strong at no less than 1.55x as debt service remains level through 2033 and no additional borrowings are contemplated.

Days cash on hand (DCOH) is expected to stabilize around 185 days providing the utility with sound liquidity.

DIVERSIFIED AND AMPLE POWER SUPPLY: GRDA's portfolio of resources, which includes a diverse fuel mix and is supplemented by purchases from the Southwest Power Pool (SPP), has enabled the utility to efficiently supply electricity to its customers. Completion of a new 495MW natural gas-fired facility in July 2017 will offset the planned closure of a coal-fired Grand River Energy Center (GREC) Unit 1, and should provide GRDA with sufficient resources to meet future customer energy demand.

MIXED CUSTOMER BASE: GRDA supplies wholesale and retail electric service to a sizeable customer base that exhibits significant concentration in energy sales and related revenue. Moreover, just 42% of power supply contracts (by revenue) extend through the life of its outstanding and proposed debt. GRDA's third largest customer, Northeast Oklahoma Electric Cooperative, Inc. (NEO), representing 8% of 2015 revenues, recently elected not to renew its contract expiring in May 2017, highlighting this risk.

OFFSETTING REVENUE PROTECTIONS: Long-term contracts to 2042 with most municipal customers, very low wholesale and retail rates and limitations on retail choice for industrial customers should ensure revenue stability over the long term. GRDA has also entered into long-term capacity purchase agreements with three of its municipal customers, further deepening customer relationships.

RATING SENSITIVITIES

CUSTOMER RETENTION: Grand River Dam Authority, OK's inability to maintain financial metrics due to the unexpected loss of an additional large customer, or multiple customers, or inadequate rate-setting resulting from competitive or political pressure could lead to negative rating action.

CREDIT PROFILE

GRDA supplies wholesale and retail electric power to 106 customers, principally in 24 northeastern Oklahoma counties. The service territory is broad, indirectly extending to 75 of Oklahoma's 77 counties and to portions of three neighboring states.

CONTINUED FINANCIAL IMPROVEMENT

Lower debt service requirements beginning in 2014, along with lower fuel and purchase power costs, have continued to bolster GRDA's financial metrics. Average debt service payments declined from $133 million annually for the period 2009 - 2013 to $78 million annually in fiscals 2014 - 2015. Lower fuel prices also contributed to improved margins and increased operating income. Additional savings were passed onto the customer base in the form of a lower power cost adjustment (PCA) in 2015.

GRDA has continued to build liquidity as the authority has averaged 193 DCOH over the last five years and reached a five year peak of 274 DCOH in 2015. The authority's leverage remains in line with 'A+' rating category medians and is expected to continue to decline with no new debt issuances planned at least through the next five years.

MIXED CUSTOMER PROFILE MITIGATED WITH REVENUE OFFSETS

GRDA's customer base is composed of municipal, off-system firm, commercial and industrial, and cooperative customers, in addition to spot power sales through the SPP. It presents some unique challenges in the public power sector. However, various offsets help provide the authority with greater revenue predictability over the long term.

Most municipal customer sales representing 36% of the total are made under long-term, all-requirements wholesale power contracts to 2042, or beyond the final maturity of GRDA's outstanding debt and series 2016 bonds. GRDA management has undertaken efforts to renew and extend the contracts with its current customers to avoid future demand uncertainty. Negatively, GRDA's contract with NEO, its third largest customer representing 8% of revenues, will terminate in May 2017 after the cooperative elected not to renew.

Retail commercial and industrial sales growth from economic development at the MidAmerica Industrial Park near Pryor, OK will help mitigate the loss of NEO from the customer base. Most recently, Google, GRDA's largest industrial customer, announced on Sept. 23, 2016 that it would increase its total investment in Oklahoma to $2 billion by 2018 as the company expands its data centers. Moreover, industrial customers typically have three-year contracts, but are prohibited from changing wholesale providers after an initial choice is made. This provides long-term certainty that benefits power supply planning.

PROJECT CONSTRUCTION

GRDA is in the midst of constructing a nominal 495-MW natural gas-fired, combined-cycle facility - GREC Unit 3. The new facility exhibits GRDA's continued movement away from coal to a higher reliance on natural gas. GREC Unit 3 will have a very low 6,500 British thermal unit/kWh heat rate that will result in regular dispatch. GRDA expects GREC Unit 3 to be commercially operational in July 2017.

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

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

https://www.fitchratings.com/site/re/750012

U.S. Public Power Rating Criteria (pub. 18 May 2015)

https://www.fitchratings.com/site/re/864007

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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