Fitch Rates Louisiana Energy and Power Auth Project Revs 'A-'; Outlook Stable

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NEW YORK--(BUSINESS WIRE)--Fitch Ratings assigns an 'A-' rating to Louisiana Energy and Power Authority's (LEPA or the authority) proposed $152.7 power project revenue bonds (LEPA Unit No. 1), Series 2013A, due June 2044.

The bonds are expected to price during the week of September 23, 2013. Proceeds will be used to fund construction of LEPA Unit No. 1 (the Project), a 64 MW natural gas combined cycle generating facility.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by the net revenues of the Project which include payments received from the six project participants pursuant to power sales contracts, payable as an operating expense of their respective utility systems.

KEY RATING DRIVERS

NEW PROJECT OUTPUT CONTRACTED: LEPA has arranged for the entirety of the new Project's output to be sold pursuant to take-or-pay contracts with the municipally-owned electric systems, all of which are members of LEPA. The purchasers are obligated to pay for their respective shares of all project costs, including debt service.

SATISFACTORY PURCHASERS; SOME CONCENTRATION: The 'A-' rating reflects the stable credit quality of the underlying Project participants. The three largest purchasers, which include the cities of Houma (LA), Morgan City (LA), and Plaquemine (LA), together account for 74.2% of project output. All three are characterized by a small, but primarily residential, customer base and slower growth. Electric system debt is negligible, but LEPA-related obligations are relatively high (roughly $5,000 per customer).

ACCEPTABLE CONSTRUCTION RISK: Fitch expects LEPA to execute a turnkey engineering, procurement, and construction (EPC) contract with an experienced EPC firm in the coming months. Importantly, the executed contracts obligate the participants to pay debt service on the bonds regardless of whether the Project is completed, operating, or operable.

EFFICIENT GENERATING RESOURCE: The Project is expected to supply the participants with competitively priced natural gas-fired capacity and energy which upon completion should enable the participants to reduce reliance on older, less efficient generation.

MANAGEABLE FUEL SUPPLY: The Project's proximity to several U.S. Gulf Coast interstate pipeline systems and access to ample capacity and gas supplies will mitigate the risks associated with volatile fuel costs, which will represent about 75% of ongoing operating costs.

STANDARD CONTRACT STEP-UP PROVISION: The power sales contracts include standard step-up provisions that require each participant to purchase up to 125% of its original allocation of the project output in the event that another participant defaults.

RATING SENSITIVITIES

CHANGE IN PARTICIPANT METRICS: The operating and financial metrics of the project participants, many of which are small in size and somewhat dependent on the historically cyclical oil and gas sector, will be a key factor in support of the rating.

DELAY IN PROJECT COMPLETION: Notwithstanding underlying payment provisions embedded in the power sales contracts, significant delays and/or cost overruns would create added financial pressure on the participants, which in turn would place downward rating pressure on the bonds.

CREDIT PROFILE

LEPA is a nonprofit wholesale power supplier that was created in 1979 for the benefit of its members. As of Sept. 1, 2013, LEPA reported 17 members which are dispersed throughout the state of Louisiana. Each of the LEPA members own and operate a municipal electric system. Together, the LEPA members encompass a total population of approximately 300,000 and supplied 1.3 million MWh's of electricity to the members' retail electric customers in 2012.

LEPA is currently pursuing a strategy to supplement the existing resources utilized to supply wholesale power to certain members which include a 104.6 MW participation in the Rodemacher No. 2 coal-fired plant, federal hydro resources, and the assignment of member-owned generation. As an alternative to higher cost and potentially more volatile purchased power, LEPA elected to proceed with the Project in late 2010. The Project will represent a core component of LEPA's generating portfolio once completed. In particular, the modern, combined-cycle technology will provide the authority with a more efficient baseload resource to replace a portion of older vintage member generation.

SEPARATE AND DISTINCT PROJECT

The Project is a natural gas-fired combined cycle generating plant to be constructed in Morgan City, LA. The plant will have a nameplate capacity of 64 MW, but is expected to operate at a net output of 61.1 MW based on projected availability. The Project is designed to meet the emissions standards in its pending air permit, and to comply with all federal and state emissions requirements.

Each of the six participants are required to pay its proportional share of project costs pursuant to power sales contracts which expire the later of (i) the maturity of the bonds or (ii) October 31, 2065. Each participant's obligation is take-or-pay, requiring it to pay its share of all costs (including debt service) whether or not the project is operating or operable. The bond resolution obligates LEPA to set participant rates at a level sufficient to generate minimum 1.10x debt service coverage.

MANAGEABLE CONSTRUCTION RISK

Project construction is scheduled to commence in April 2014 with commercial operation expected by September 2015. LEPA is in the process of selecting an EPC contractor which will be responsible for all necessary design, procurement, construction and start-up procedures. Importantly, Fitch expects the final EPC contract to contain customary provisions for liquidated damages in the event the commercial operation date is delayed.

The Project, as outlined, does not encompass any new or innovative technology. As such, Fitch believes that the overall construction risk of the project is low, but notes that the obligation of the participants to pay the operating expenses and debt service related to the Project is not condition upon completion.

CONCENTRATON AMONG LARGER PARTICIPANTS

Ownership interest in the Project is fairly concentrated with the three largest participants (Houma, Plaquemine, and Morgan City) representing about three-quarters of total base capacity. Houma is clearly the anchor participant representing 40.9% of project capacity. The Project's capacity will account for varying portions of each system's anticipated peak demand (19.5% to 36.3%) and is expected to be a core generating resource for each city given the plant's efficiency.

The participants serve a concentrated economic area focused primarily on oil and gas services. The majority of participants and project load are located in the south central portion of Louisiana - an area that was meaningfully impacted by the 2005 hurricane season, and more recently the BP Plc oil spill in April 2010, and subsequent drilling moratorium. Positively, aggregate 2012 peak demand and energy sales among the participants exceeded 2008 levels. The conclusion of cleanup efforts from the BP spill, increased drilling permits in the Gulf of Mexico, and related employment gains are primary contributors to the region's recent economic stabilization.

Energy sales among the largest three participants are well balanced. For fiscal 2012, participant energy sales to the more stable and secure residential customer class exceeded 50% of total energy sales for each of the three cities. Of note is the absence of any meaningful customer concentration at the participant level with the three largest members serving a relatively diverse base of commercial customers spanning the medical sector, local government and secondary education. Retail rates for the largest participants are generally in line with regional averages.

PARTICIPANT FINANCIAL PERFORMANCE

The Project's prospective financial position is supported by the creditworthiness of its participating members, which exhibit strong cash flow; low, if any, leverage; and generally robust cash balances. Fitch has reviewed financial metrics for the five largest participants, and believes that the credit quality of the participants solidly supports the assigned rating.

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

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Raymond James & Associates, Inc., Nixon Peabody and Creditscope.

Applicable Criteria and Related Research:

--'U.S. Public Power Rating Criteria' (Dec. 18, 2012);

--'U.S. Public Power Peer Study' (June 13, 2013).

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U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696027

U.S. Public Power Peer Study

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=392926

Additional Disclosure

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