

Fitch Affirms Alta Wind 2010 P-T Trust Certificates at 'BBB-'; Outlook Remains Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'BBB-' rating of Alta Wind 2010 Pass-Through Trust (Alta) \$579.9 million (\$493.4 million outstanding) senior secured pass-through certificates due 2035 (certificates). The Rating Outlook is Stable.

The rating on the certificates reflects relatively strong coverage ratios in spite of lower than expected wind resources and some transmission curtailment, mitigated by high availability and an improved expense profile. A supplemental debt service reserve offsets potentially lower coverage ratios from a back-weighted amortization profile.

KEY RATING DRIVERS

Fixed-price contracts: Alta's revenues are derived from a fixed-price power purchase agreement (PPA) with Southern California Edison (SCE, rated 'A-' with a Stable Outlook by Fitch), effectively mitigating price risk. State renewable portfolio standards should incentivize SCE to support the PPA, which includes achievable performance requirements. (Revenue Risk - Price: Midrange)

Wind supply risk: Net output could fall below projections due to variability of the wind resource at a non-diversified, single-site project. Fitch's financial analysis takes into account the potential for low wind conditions to negatively affect output. (Revenue Risk: Volume: Midrange)

Favorable operating profile: Alta's operating profile benefits from commercially proven technology, a strong turbine warranty, and continued support from the turbine manufacturer under a five-year maintenance agreement. The Alta projects will depend upon the ongoing maintenance of the turbines and balance-of-plant (BoP) to support projected availability. (Operational Risk: Midrange)

Back-ended amortization structure: Alta's lenders benefit from a covenant package with terms and conditions typical of similar project finance transactions. Fitch views the incremental reserve funding mechanism, which should effectively increase the debt service reserve to 12 months, as a positive structural mitigant. The incremental reserve should

offset the financial impact of higher scheduled debt service as the pass-through certificates approach maturity. (Debt Structure: Midrange)

Investment-grade financial performance: Fitch views financial performance in the Fitch rating case as adequate at the current rating level. In a Fitch rating case that combines lower energy output and availability with higher operations and maintenance (O&M) costs, debt service coverage ratios (DSCRs) generally remain above 1.4x but fall near the 1.2x level between 2032 and 2034. Mitigating factors include the liquidity provided by the incremental debt service reserve mechanism which supports coverage in that time when approximately 35% of amortization comes due into the final five years of the tenor.

Performance consistent with peers: Similar to comparably rated peers, Alta's performance has fallen between the base and rating cases. Favorably, high availability, lower expenses and reduced curtailment have offset lower production to result in a 1.70x DSCR for 2013, compared to a range of 1.26x-1.70x for investment-grade peers.

RATING SENSITIVITIES

--Persistent output shortfalls: Fitch may revise Alta's financial projections if energy output consistently underperforms expectations and DSCRs fall below 1.30x.

--Weak availability: Credit quality could be weaker following a sharp reduction or downward trend in either turbine or BoP availability, particularly if Vestas is unable fulfill its warranty obligations.

--Failure to build liquidity: If mandated additional reserve funding does not occur as the debt approaches maturity, operating cash flow may be insufficient to support the rating.

SECURITY

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The certificates are secured by the owner-lessors' repayment obligations under the lessor notes, which in turn are secured by a first-priority security interest in the project's assets. The lessor notes issued by each owner lessor are secured by the collateral owned by that owner-lessor. In other words, the lessor notes are not cross-collateralized across all four projects. Because the flow of funds is structured to ensure that aggregate cash flow is available to each of the four lessees, Fitch believes the lack of cross-collateralization will not affect Alta's probability of default.

CREDIT UPDATE

Wind resources were lower than expected for 2013, but still sufficient to produce metrics appropriate for the rating. Revenue was down 11.25% from the original forecast for 2013 as wind averaged about 6.5% lower than the expected P50. The lower wind resources were slightly offset by improved availability averaging 98.3%, above the forecast of 95.3%. Generation improved over 2012 levels predominantly due to significantly reduced curtailment losses. Lower than budgeted taxes and insurance have also helped to offset lower revenue. Though the actual 2013 DSCR of 1.70x fell below the base case forecast of 1.84x, financial performance remains consistent with the current rating.

Going forward, under the Fitch rating case, DSCRs are projected to remain above 1.4x, with the exception of a three-year period between 2032 and 2034, when rating case coverage falls to about 1.2x. The incremental 12-month debt reserve is expected to mitigate potentially lower coverage and provide financial cushion consistent with an investment grade rating.

On June 4, 2014, Terra-Gen Power LLC announced an agreement to sell 947 MW of wind projects to NRG Yield Inc. for \$870 million. This portfolio sale includes the rated Alta companies, which are security for the rated certificates and are bankruptcy remote, special purpose vehicles that are separate and distinct from the sponsor and any intermediate holding companies. Fitch expects these features to remain in position upon a successful closing of the proposed transaction. Further, Terra-Gen Operating Company LLC will remain the operator of the rated projects.

Prior to closing of the announced sale, Fitch will evaluate if the transaction has altered any features relating to the ring-fenced structure currently in position and determine if augmentations warrant a rating action. Fitch will analyze the structures' ability to prohibit

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potential guarantees and cross-default provisions to other non-project existing and future debt as well as restrictions on the comingling of cash flow from the projects. Currently, there is no expectation that NRG Yield Inc. will prepay or otherwise seek to alter the rated debt at Alta.

Alta consists of special purpose companies created solely to develop, own, and operate the 570 MW wind farm located in the Tehachapi Pass near the town of Mojave in southwestern California. Alta sells energy output to Southern California Edison ('A-', Outlook Stable) under a fixed-price PPA expiring Dec. 31, 2035. Alta used the proceeds of the certificates to fund the project's construction and reimburse the sponsor, Terra-Gen Power LLC, for development costs.

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 Onshore Wind Farms Debt Instruments (April 11, 2013).

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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 Onshore Wind Farm Projects

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=705018

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=834375

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