

Fitch Affirms Alameda Municipal Power, CA's Rating at 'A+'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'A+' rating on the following bonds issued by the Alameda Public Finance Authority (APFA) on behalf of Alameda Municipal Power (AMP):

--\$28.9 million series 2010A and 2010B (taxable).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by installment payments from AMP to APFA, pursuant to an installment sale agreement dated Aug. 1, 2010. AMP's installment payments are secured solely by a pledge of the electric system's net revenues. AMP's payments to APFA are absolute and unconditional.

KEY RATING DRIVERS

MIXED FINANCIAL PROFILE: AMP's financial performance is mixed, with debt service coverage of 2.74x in fiscal 2013 (not including revenues from the sale of Renewable Energy Credits) but a more modest 1.17x after the transfer to the city's general fund. However, liquidity is strong with 244 days operating cash.

DECREASING SALES, POTENTIAL FOR GROWTH: Electric sales have decreased year-over-year since 2008, more recently due to energy efficiency programs and customer installation of solar units. Management anticipates substantial development at Alameda Point, which could strengthen sales.

FAVORABLE POWER SUPPLY MIX: AMP benefits from a diverse mix of mostly

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renewable resources that are primarily purchased through Northern California Power Agency (NCPA). AMP is well-positioned to exceed the state's renewable and greenhouse gas reduction targets and has begun to sell a portion of its power supply as renewable energy credits (RECs) through advantageous power contracts.

MANAGEMENT OF POWER SUPPLY: A large portion of AMP's power supply will be bought on the market, to replace energy sold as RECs. Active management is needed to ensure the utility is protected from market price fluctuations and changing power supply contracts.

COMPETITIVE RATES AND CONSERVATIVE RATE-SETTING: Retail electric rates are in line with neighboring municipal electric utilities and well below investor-owned. The rate advantage should be maintained, as only modest rate increases are planned.

RATING SENSITIVITIES

MANAGEMENT OF CITY GROWTH: Potential growth in energy sales, along with continued strengthening of financial metrics, would be viewed favorably and could result in upward movement of the rating.

CREDIT PROFILE

The city of Alameda is a 22.8 square mile island located in the San Francisco Bay. AMP provides retail electric service to a population of approximately 76,000, primarily residential and commercial users. The island historically housed a Naval Air Station, which was closed in 1997 and left vacant. In 2013 the city claimed title to 1,400 acres of the vacant land and expects to begin developing mixed-use properties in late 2014/early 2015. Additional development is currently under construction at Alameda Landing and large retail stores have already been developed. Fitch views the development of Alameda Landing and Point favorably, given that the remainder of the island is built-out with limited growth potential.

AMP maintains adequate rate flexibility, with retail electric rates in line with neighboring municipal electric utilities and well below investor-owned. AMP's rates are approximately 18% lower than the neighboring investor-owned utility. A key credit strength is the Public Utility Board's (the board) willingness to raise rates moderately but regularly, in advance of projected cost increases.

The city sold its telecomm business to Comcast in November 2008. Three separate lawsuits were brought forward after the sale. The majority of claims were decided in AMP's favor in 2011, except for approximately \$2 million in claims from bond investors, citing that the utility did not properly disclose the risks involved. Positively, in April 2014, a judgment was passed and decided in AMP's favor, after almost six years of litigation. With the lawsuit ended, management will be able to fully focus on the electric distribution system.

DIVERSE POWER SUPPLY

AMP does not own generation; instead, the utility purchases 100% of its power requirements from a variety of suppliers under long-term contracts. With the exception of market purchases, AMP's resources are carbon-free and primarily renewable (geothermal, wind and landfill gas). Its largest power supply provider is Northern California Power Agency (NCPA) - a joint power agency. AMP is a member and participant in most of NCPA's generation projects pursuant to long-term, take-or-pay purchase power contracts.

NCPA's geothermal project (rated 'A+' by Fitch) has historically provided the largest component of AMP's power supply, approximately 30%. In 2013 AMP began selling a portion of its power supply as RECs. AMP has entered into a five-year contract with the California Department of Water Resources (rated 'AA') for the sale of RECs. Market purchases, coordinated by NCPA, increased substantially in 2013 to replace the renewable energy sold with market-priced energy. Over the next five years, market purchases will be AMP's largest generation source. Even after the REC sales, AMP will still be compliant with state and board renewable targets.

FINANCIAL PERFORMANCE

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Financial performance remained stable in fiscal 2013, as evidenced by strong topline Fitch-calculated debt service coverage (DSC) of 2.74x, not including revenues from the sale of RECs. These revenues are held in a subaccount of the rate stabilization fund, to be used for greenhouse gas reduction programs, and are not included for repayment of debt. If these revenues were included, DSC would be a very high 4.27x. Fitch also evaluates AMP's coverage metric including payment of the approximately 7% of revenue transfer to the general fund. DSC after transfers was 1.17x in fiscal 2013.

DSC is projected to decrease somewhat in fiscal 2015, due to the expiration of the attractively priced Morgan Stanley purchase power contract, before rebounding in fiscals 2016-2019. AMP will enter into NCPA's market purchase program, priced approximately 20% higher, to replace the Morgan Stanley contract through 2016. Implemented rate increases and growth in energy sales, as a result of the development of Alameda Point, drive the strengthened financial performance. Projections do not include revenues from the sale of RECs and conservatively assume load loss until 2016.

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

Applicable Criteria and Related Research:

--'U.S. Public Power Peer Study -- June 2014' (June 13, 2014);

--'U.S. Public Power Peer Study Addendum - June 2014' (June 13, 2014);

--'U.S. Public Power Rating Criteria' (March 18, 2014);

--'2014 Outlook: U.S. Public Power and Electric Cooperative Sector' (Dec. 12, 2013).

Applicable Criteria and Related Research:

2014 Outlook: U.S. Public Power and Electric Cooperative Sector (Calm Under Pressure)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725447

U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841

U.S. Public Power Peer Study Addendum - June 2014

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750283

U.S. Public Power Peer Study -- June 2014

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749789

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=837636

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