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CREDIT OPINION
31 August 2017

Update

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Lafayette Public Power Authority, LA

Update - Moody's affirms A1 rating on Lafayette Public Power Authority, LA electric revenue bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service affirmed the A1 rating assigned to Lafayette Public Power Authority, LA (LPPA) electric revenue bonds. The rating outlook is stable.

The A1 rating takes into consideration the strong take-or-pay (TOP) contractual relationship of LPPA and its only participant, the City of Lafayette, Lafayette Combined Utilities System (LUS) (A1 Stable). The TOP obligation of LUS to pay LPPA's operating and debt service costs is senior to LUS's own debt service obligation as it is treated as an operating and maintenance expense of LUS. The rating also incorporates the sound operating record of RPS2 power plant, a coal-fired generating facility of which LPPA's is a 50% owner. The rating is also supported by the LPPA's stable financial position and sound bond security provisions.

Credit Strengths

» LPPA's sole participant, the Lafayette Combined Utilities System, LA is rated A1 and demonstrates stable operating and financial metrics

» Steady performance record of RPS2 power plant

» Fully cash funded maximum annual debt service reserve

» Unregulated rate-setting ability and automatic fuel cost adjustments allow for timely and adequate cost recovery at LUS; strong track record of base rate adjustments to accommodate higher costs

» Full participation in MISO market provides operational efficiencies

Credit Challenges

» LPPA is exposed to the potential increased capital expenditures that could be required to make RPS2 compliant with EPA's carbon emission reduction rules

» Uncertainty and potential costs related to possible conversion of RPS2 from coal to natural gas

» Local economy is still concentrated in the oil industry, increasing the potential for economic volatility owing to fluctuations in oil price

Rating Outlook

The stable outlook on LPPA revenue bonds reflects in large part the credit quality at LUS, the tight interrelationship between LUS and LPPA through the TOP, and the willingness to enact sufficient rates increases to ensure sound financial metrics and favorable bond security provisions.

Factors that Could Lead to an Upgrade

» LUS achieve stronger financial metrics;

» Environmental risks relative to RPS2 are more certain; and

» LUS's debt ratio moderates

Factors that Could Lead to a Downgrade

» LUS rating is downgraded;

» LPPA or LUS's financial performance weakens; or

» Any significant new debt related to RPS2 becomes a financial burden.

Key Indicators

Exhibit 1

Lafayette Public Power Authority, LA

	2012	2013	2014	2015	2016
Total Sales (mWh)	2,102,720	2,016,287	3,041,789	3,150,820	2,900,099
Debt Outstanding ($'000)	38,720	96,585	90,580	87,625	85,170
Debt Ratio (%)	39.5	60.9	56.4	53.4	50.3
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	246.95	157.78	198.61	246.90	285.60
Adjusted Debt Service Coverage (x) [1]	0.59	0.64	0.69	1.04	1.65

Note 1: Adjusted Debt Service coverage is below 1x for FY 2012-2014 due to timing differences between scheduled date for principal repayment as per bond indenture - November 1st and the actual date of principal repayment which is earlier than October 31st - the date when the utility's fiscal year ends.
Source: Moody's Investors Service

Recent Developments

LPPA reported operating revenues of $48.3 million in 2016, 7% lower than the $51.7 million in 2015. The lower operating revenues are attributable to lower energy sales to LUS owing to lower dispatch levels at RPS2 which have consistently decreased over the last five years. LUS is a part of the MISO wholesale energy market where the wholesale energy prices have declined, impacting the dispatch profile of plants such as RPS2. Since RPS2's heat rate is higher, its capacity factor and energy sales have been lower. Operating expenses have decreased even more sharply by 15% to $38 million in FY 2016 from $44.4 million in FY 2015 owing to lower fuel costs. Therefore, net revenues increased by 43% to $10.5 million from $7.1 million in 2015. The fixed obligation charge coverage (FOCC) increased as a result to 1.65 times in 2016 from 1.04 times in 2015. Management projections show FOCC remain relatively flat at 1 times for the near future owing to the nature of their contract with LUS, which provides for full cost recovery including payment of debt service.

Owing to more competitive pricing for energy in the MISO market, RPS2 was not dispatched as much as in the past years. Capacity factor has declined to 37% in 2016 from 62% in 2012 causing generation to decline to 1.59 million MWhs in 2016 from 2.63 million MWhs in 2012.

Detailed Rating Considerations

Revenue Generating Base

LPPA was established primarily as a financing vehicle for the city's 50% share of the ownership cost of the RPS2, a 560 MW coal-fired generation facility. LPPA entered into a take-or-pay (TOP) power sales agreement with the city of Lafayette, under which the city is obligated to pay for its share of operating expenses and debt service related to the RPS2 project.

RPS2 is a 560 MW coal-fired generation facility operated by CLECO in Alexandria, Louisiana. The generating unit is part of a larger complex at the Brame Energy Center operated by CLECO. The generation facility is owned by Louisiana Energy and Power Authority (LEPA) (20%), CLECO (30%) and Lafayette Public Power Authority (50%). The plant has exhibited consistent performance with a heat rate of about 11,300 Btu/kwh in the last five years. The capacity factor has averaged 54% in the last five years but in 2016, it was at 37%. The forced outage factor was 2.4% for FY 2016 in line with the 3.0% average recorded over the past five years.

The primary fuel for RPS2 is low sulphur coal, obtained from Campbell County, Wyoming, under a master coal purchase agreement. LPPA manages its portion of the fuel supply and has a target of 60 days of coal storage. The all-in cost of the RPS2 generation in 2016 was $47.62 per MWh.

The City of Lafayette, LA Combined Utilities System (LUS) (A1 stable) is owned by the city of Lafayette, in southern Louisiana (sales tax bonds rated Aa3, no outlook). The city's tax base and population have continued to grow steadily, but very slowly, over the last several years. According to Moody's Economy.com, Lafayette's energy-driven free fall appears to be over, however, weak demographics and an over dependence on the volatile energy industry will cap potential growth. Job gains this year are small compared with losses in prior years.

LUS's customer base is diversified, and since being fully integrated into the MISO market, retail sales account for 100% of electric revenue. LUS is not overly reliant on any of its large customers, with the top ten customers contributing only 8.9% of the revenues in FY 2016. The Utility System also provides wastewater and water service, both of which are financially self sufficient. The communications system is operated separately but does include a pledge that if revenues are insufficient then the Utilities System will pay communications system debt service.

LUS's electric rates are set by the city council and are not regulated externally. LUS has been well managed with each of the utility services self-supporting and well positioned to manage growth but each with regulatory issues they have to manage. The communications system owns the fiber optics communications system and represents a major service with potential competitive pressures. However, the communication system is expected to continue exhibiting strong growth in operating revenues.

Operational and Financial Performance

RPS2's net generation has been decreasing over the last 5 years – the plant generated 1,598,556 MWh in 2016, a 21% decrease from 2,017,932 MWh in 2015. Additionally, the net capacity factor dropped significantly to 37% in 2016 from a high of 61.7% in 2012. The decrease in RPS2's generation and capacity factors are primarily driven by availability of cheaper energy supply, owing to lower natural gas prices in the MISO market, which made RPS2 less economic.

LPPA has been in compliance with bond covenants including coverage requirements recovering all the costs through its take-or-pay contract with LUS. However, there is a timing mismatch between when LPPA's bond principal payments are due and when LPPA receives remittances from LUS to make the payments. Therefore, if audited financial statements are used to calculate debt service coverage based on LPPA's current year's revenues, the coverage was 0.69 times for FY2014 and 0.64 times for FY2013. In the past two years, however, the coverage has been above 1 times.

The combined electric, water and wastewater utility has a sound financial record with debt service coverage decreasing to 1.55 times in FY 2016 from 1.8 times in FY 2015. The decrease in FOCC is attributable to an increase in operating expenses other than fuel costs, which resulted in lower net revenue for FY 2016. Moody's calculated fixed obligation charge coverage (FOCC), which includes General Fund transfers as an operating expense and includes the debt service portion of LUS's take-or-pay obligation payment to LPPA as debt service, averaged 1.72 times between FY 2014 and FY 2016.

Going forward the FOCC is projected to decrease slightly because of the increased debt service obligations due to two planned bond issuances but the utility will increase electric base rates in 2017 and 2018 in order to maintain the FOCC in line with the historical averages, on a three year average basis. A consistent strength of LUS has been its maintenance of strong days cash on hand which is a positive consideration in the rating. In 2016, days cash on hand was about 277 days. Going forward we expect liquidity to remain at approximately the same level.

LIQUIDITY

For the past three fiscal year, unrestricted liquidity remained stable, around $30 million. As measured in days cash on hand against annual operating expenses, the metric improved to 286 days cash in FY2016 from 199 days cash in FY2014 due to a drop in operating expenses. LPPA's restricted liquidity was comprised of the current bond reserve fund balance of approximately $9.6 million as required by the bond ordinance. LPPA also maintains a reserve and contingency fund of approximately $5.3 million and a fuel cost stability fund of approximately $4.5 million.

Debt and Other Liabilities

As of October 31, 2016, LPPA had $85.2 million of bonds outstanding:

Electric Revenue Bonds, Series 2007: $685,000

Electric Revenue Bonds, Series 2012: $55,540,000

Electric Revenue Refunding Bonds, Series 2015: $28,945,000

DEBT STRUCTURE

All debt is fixed rate par debt. The debt service requirements are level at about $6.7 million through 2029, at which point it increases to about $10 million for the next four years.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

Management and Governance

LPPA was established by the Lafayette City-Parish Council under state statutes primarily as a financing vehicle for the city's 50% share of the ownership cost of the RPS2, a 560 MW coal-fired generation facility. LPPA is a separate legal entity apart from the city. However, the City-Parish Council is the governing board of LPPA. The chief executive officer of LPPA is the city parish president.

Lafayette Public Power Authority and LUS are both governed by the Lafayette Public Utilities Authority (LPUA) and the Lafayette City-Parish Council. The nine-member City Council is elected by districts. Utility rates are established without external regulation and are set by the LPUA and the City-Parish Council. New rates can be established in six weeks but LUS typically does a comprehensive rate study in preparation for a rate change.

Legal Security

Valid and binding obligation of LPPA (issued under the authority of Louisiana State Constitution and statutes) and payable from the revenues pledged under the Bond Ordinance. The pledged revenues are derived from the take-or-pay contract obligation between LPPA and Lafayette Combined Utilities System (which includes water, wastewater and electric revenues pledged), payable even if the plant is inoperable or non-operable, for 100% of the debt service and operating and maintenance costs of the 50% ownership interest of LPPA in the RPS2 coal fired generating facility. City of Lafayette pays the expense as an O&M expense of the combined Electric, Water and Wastewater Systems. The LPPA rate covenant is sum-sufficient and there is no fiscal test for additional bonds. The debt service reserve is funded by bond proceeds at maximum annual debt service and a reserve and contingency fund which is expected to be about $9.6 million in FY2016.

Use of Proceeds

Not applicable.

Obligor Profile

LPPA was established primarily as a financing vehicle for the city's 50% share of the ownership cost of the RPS2, a 560 MW coal-fired generation facility. The PRS2 project is owned by Louisiana Energy and Power Authority (LEPA) (20%), CLECO (30%) and Lafayette Public Power Authority (LEPA) (50%). The project is managed and operated by CLECO.

In 1977, LPPA entered into a take-or-pay power sales agreement with the city of Lafayette, under which the city is obligated to pay for its share of operating expenses and debt service related to the RPS2 project.

Rating Methodology and Scorecard Factors

The grid is a reference tool that can be used to approximate credit profiles in the public power electric utility sector. However, the grid is a summary that does not include every rating consideration. Please see Methodology on US Municipal Joint Action Agencies for more information about the limitations inherent to grids.

Exhibit 2

Lafayette Public Power Authority, LA rating methodology scorecard

Factor	Subfactor/Description	Score	Metric
1. Participant Credit Quality and Cost Recovery Framework	a) Participant credit quality. Cost recovery structure and governance	A1	NA
2. Asset Quality	a) Asset diversity, complexity and history	A	NA
3. Competitiveness	a) Cost competitiveness relative to market	A	NA
4. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aa	244
	b) Debt ratio (3-year avg) (%)	Aa	53%
	c) Fixed obligation charge coverage ratio (3-year avg) (x)	Baa	1.13x
Material Asset Event Risk	Does agency have event risk?	No	
Notching Factors		**Notch**	
	1 - Contractual Structure and Legal Environment	0	
	2- Participant Diversity and Concentration	0	
	3 - Construction Risk	0	
	4 - Debt Service Reserve, Debt Structure and Financial Engineering	0	
	5 - Unmitigated Exposure to Wholesale Power Markets	0	
Scorecard Indicated Rating:		**A1**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was US Municipal Joint Action Agencies published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REPORT NUMBER 1088095

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