FitchRatings

# FITCH AFFIRMS OVERTON POWER DISTRICT NO. 5, NV'S REVS AT 'BBB+'; OUTLOOK TO STABLE

Fitch Ratings-New York-24 April 2014: Fitch Ratings has affirmed the 'BBB+' rating on the following Overton Power District No. 5, Nevada (OPD5) revenue bonds:

--$15.1 million special obligation revenue bonds, series 2008.

The Rating Outlook has been revised to Stable from Negative.

SECURITY

The bonds are secured by and payable from net revenues of the district's electric system. In addition, the bonds share a parity mortgage and security interest in the district's facilities with approximately $37.9 million of National Rural Utilities Cooperative Finance Corporation (CFC) notes.

KEY RATING DRIVERS

STABILIZING SERVICE TERRITORY: OPD5 provides retail electric distribution service to approximately 14,000 customers located northeast of Las Vegas. The effects of the most recent economic recession continue to weigh on the region. However, employment indicators are slowly improving from their lows.

OUTLOOK REVISION TO STABLE: The Outlook revision to Stable from Negative principally reflects OPD5's improved 2013 financial metrics versus the prior three years. Two recent rate increases, coupled with a steadier sales environment, provide the district more stable operations.

IMPROVING CASH FLOWS: Debt service coverage ratios strengthened to satisfactory levels in 2013 (1.43x). This follows three consecutive years of near 1.0x coverage that demonstrated OPD5's constrained financial flexibility. Moreover, cash on hand (88 days) rebounded to historical averages; a $5 million perpetual line of credit facility with CFC provides additional support.

FORECAST FINANCIAL STABILITY: Cash flow and liquidity metrics through the 2017 planning period are improved from the 2013 forecast, given OPD5's more stable operating position. Forecast debt service coverage ratios are aligned with the district's stronger 2013 results and its 1.3x-1.4x target.

MODEST POWER SUPPLY CLARITY: A new wholesale power contract through 2017 with Arizona Public Service (APS) adds medium-term clarity to OPD5's power supply. Longer-term power supply and related costs are budding concerns that the district expects to address beginning later this year.

RATING SENSITIVITIES

FINANCIAL RESULTS ARE FOREMOST: Sustained debt service coverage near forecast levels will continue to be a critical indicator of the district's creditworthiness.

SUPPORTIVE RATE ACTION: Rate increases, as necessary to provide for targeted levels of debt service coverage, are likewise important to the rating, given OPD5's forecast return to sales growth through the 2017 planning period (1.7% averaged annually). OPD5 did not raise rates sufficiently to maintain adequate levels of debt service coverage as sales declined in recent years.

CREDIT PROFILE

IMPROVED OVERALL CREDIT PROFILE

Located approximately 65 miles northeast of Las Vegas, OPD5 provides retail electric service to about 14,000 customers in a relatively rural area of Clark County. Regional employment indicators remain challenged by the effects of the most recent economic recession but are slowly improving. In addition, district sales appear to have leveled. These factors, coupled with two recent rate increases, provide a more stable operating environment borne out in OPD5's 2013 financial metrics. Consequently, Fitch has revised the district's Rating Outlook to Stable from Negative.

Debt service coverage improved to 1.43x in 2013 from an average of 1.01x the prior three years. Board-approved rate increases in Oct. 2009, 2011, and 2012 merely offset an average of 5% annual declines in 2009-2011 load, and the district produced breakeven operations from 2010-2012.

FORECAST STABILITY

Forecast debt service coverage through the 2017 planning period is consistent with the district's stronger 2013 results and its target. OPD5 assumes an average of 1.7% annual sales growth during the period, which would be a marked improvement from recent experience. Achieving forecast cash flow metrics by adjusting rates sufficiently to offset the absence of sales growth would be viewed favorably. By contrast, an unwillingness to maintain forecast coverage ratios could lead to negative rating pressure.

Fitch's stress scenarios suggest that a 6% overall rate increase in 2015 could offset a halving of projected revenue growth to maintain targeted levels of debt service coverage. Such increase would be larger than recent historical precedent but within range. The district does not currently plan any rate increases during the forecast period, and current rates are slightly above the state average (108%).

STRONGER CASH BALANCES

Cash balances improved to above the district's $6 million target in 2013. Cash on hand equaled 88 days ($7.1 million), and liquidity on hand, including a $5 million perpetual line of credit facility with CFC, was 149 days. That was near OPD5's 2009-2011 average and within a satisfactory range of Fitch's rating category medians. A one-time prepayment to the district's principal power supplier caused its cash on hand to fall to 55 days in 2012.

LENIENT LEGAL PROVISIONS

Lenient legal provisions, particularly with respect to the rate covenant, have provided the district with considerable latitude to run tight financial operations in recent years. Per the indenture, the rate covenant requires the district to maintain net revenues reasonably expected to equal at least 1.25x the debt service requirement for the next year on the series 2008 bonds and all parity debt. In addition, the indenture permits the inclusion of available funds in net revenues to meet the 1.25x debt service requirement for the current year.

Debt service coverage has fallen short of this calculation without causing an event of default under the indenture, as the district's attempts to improve coverage levels by raising rates and reducing expenses effectively satisfy the terms of the covenant.

MEDIUM-TERM POWER SUPPLY CONTRACT

The district's principal power supply contract with APS is relatively short-term when measured against similar systems, which exposes it to some degree of longer-term cost uncertainty. Recently tight financial operations heighten this risk. However, management intends to begin sourcing replacement power later this year, well in advance of the contract expiration.

Management negotiated the contract with APS to replace its contract with Shell Energy that expired on Dec. 31, 2012. The new fixed-price, take-or-pay contact with APS extends through Dec. 31, 2017 and satisfies the majority of the district's energy requirements with a modest increase in cost. There are no collateral posting requirements under the contract, which ultimately helps stabilize the district's liquidity position.

Contact:

Primary Analyst
Ryan A. Greene
Director
+1-212-908-0593
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Matthew Reilly
Director
+1-415-732-7572

Committee Chairperson
Dennis Pidherny
Managing Director
+1-212-908-0738

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com; Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

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

This rating action was informed by information identified in Fitch's U.S. Public Power Rating Criteria.

Applicable Criteria and Related Research:
--'U.S. Public Power Rating Criteria' (March 18, 2014);
--'U.S. Public Power Peer Study Addendum - February 2014' (Feb. 7, 2014);
--'2014 Outlook: U.S. Public Power and Electric Cooperative Sector' (Dec. 12, 2013);
--'U.S. Public Power Peer Study -- June 2013' (June 13, 2013).

Applicable Criteria and Related Research:
U.S. Public Power Peer Study -- June 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=710397
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 Peer Study Addendum -- February 2014
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=735601