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Fitch: US Solar Power PPP Models Need Focus on Fundamentals.

Fitch Ratings-New York-10 March 2015: The settlement of the Morris Model highlights the need for local government obligors to assess whether construction contractors have the technical and financial capacity to assume the risks of the project's completion including the potential for cost overruns, schedule slippage, and equipment underperformance, Fitch Ratings says. It also underscores that solar power project development is among the lowest risk asset classes of the power sector, but not risk free.
In our view, in addition to managing the construction contractor risks, government obligors should also assess the stability of revenue generation including whether debt repayment is supported by an assumption of a certain level of energy delivery and/or dependent on volatile regulated renewable energy credits.

The project was designed to support the development of multiple solar power installations on school and county government buildings in a single financing. The initiative was financed by the Morris County Improvement Authority (NJ) and Somerset County Improvement Authority and the debt was guaranteed by the counties. Morris, Somerset, and Sussex Counties, involved in the transaction, recently agreed to a settlement with the contractor that will complete the installations after cost overruns and delays, according to The Bond Buyer.

The events around this transaction have been a jolt to the financial community. However, investor demand for renewable power development remains high. More robust structures that minimize the likelihood that local governments will be called on to support debt repayment are required to maintain their continued interest in participating.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.