

Fitch Affirms 'A-' rating of Delaware Muni Elect Corp's rev bonds

Fitch-NY-March 11, 2004: Fitch affirms the 'A-' rating to the Delaware Municipal Electric Corporation's (DEMEC) \$35 million of outstanding electric revenue bonds. The Rating Outlook is Stable. The bonds are secured by amounts payable from seven of DEMEC's nine member systems under take-or-pay power sales contracts that include a 25% step-up provision.

Proceeds from the bonds were used to construct the 45 megawatt (MW) Beasley plant, a dual fuel combustion turbine. The rating takes into account the completion of construction and the unit's becoming commercial in 2002. The unit is meeting management's expectations, providing a hedge against volatile power prices in the spot market (especially during peak periods) and reducing DEMEC's exposure to transmission congestion pricing due to its proximity to load within a transmission constrained area.

The Beasley plant currently meets 25% of system requirements, with the remainder provided by a fixed load shape contract that expires in mid 2005. Management feels that such contracting for short- or medium- term power is the most advantageous strategy given current market conditions in the Delmarva peninsula. Going forward, DEMEC expects its members' demand for both peak and baseload power to increase fairly rapidly, and management is exploring several options to meet this growth. While DEMEC's power supply strategy does expose it to market risk, Fitch feels that management has handled this risk prudently and that it is reflected in the 'A-' rating.

Fundamental strength for the rating is provided by the financial stability of DEMEC and the individual project participants the project's favorable economics, and DEMEC's importance to the member systems as a voice on regional transmission and reliability issues. In addition, project debt service costs are a minimal part of each participant's operating expenses at under 10%.

Primary credit concerns include uncertainty regarding future bulk power supply arrangements and a lean management team. While the Newark electric system's project share (47%) exceeds the 25% step-up provision, this concern is somewhat mitigated by its solid competitive position, consistent sales growth, and stable financial performance. The Newark electric system is an integral part of the City of Newark's operations, with electric system transfers representing the city's largest source of funds (about 40% of general fund revenues).

DEMEC is a joint action agency providing wholesale energy to nine municipal electric systems in the state of Delaware. DEMEC meets its load requirements with a combination of owned resources and through contracts and market purchases. Seven of DEMEC's nine member cities participate in the Beasley plant project, which accounts for all DEMEC's outstanding bonds. The City of Newark is the largest participant accounting for 47.4% of project debt, followed by the Town of Milford at 20.8%. (Fitch rates Newark's G.O. bonds 'AA' with a Positive rating Watch.)

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