

**Rating Action: Moody's assigns A2 rating on American Municipal Power, Inc. (OH) Combined Hydroelectric Projects Revenue Bonds, Series 2018A; Outlook Stable**

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**AMP issues hydroelectric project financing**

New York, June 26, 2018 -- Moody's Investors Service has assigned an A2 rating to the American Municipal Power Inc.'s (AMP) \$97 million of Combined Hydroelectric Projects Revenue Bonds, Series 2018A expected to be sold in July 2018. The Series 2018 A bonds will rank on parity with approximately \$1.9 billion of AMP-Combined Hydroelectric Projects Revenue Bonds, rated A2. The rating outlook is stable.

**RATINGS RATIONALE**

The A2 rating assignment factors in the A rating category average weighted credit quality of the 79 municipal utility participants and the fact that no one participant has a dominant obligation. Seventy-three of the 79 participants' individual obligations are for less than 3% of the total obligation which diversifies payment risk. The project participants have unconditional take-or-pay obligations to pay for a share of the project debt service and O&M regardless of whether the hydroelectric facilities operate. The rating recognizes the strong bond covenants including a 25% step-up provision and a fully funded maximum annual debt service reserve.

Importantly, all of the hydroelectric units that were part of the Combined Hydroelectric Project are now commercial and providing AMP participants with energy. While there is no longer construction risk at the Combined Hydroelectric Projects, litigation with a major powerhouse supplier remains outstanding and the outcome could impact the final cost of the project. While we do not expect the outcome to be a significant consideration for AMP, the existence of litigation adds incremental cost uncertainty to the already high project cost.

The eight new hydroelectric units achieved strong availability factors in 2017. However, net capacity factors, while lower in 2018 thus far owing to the weather related impact on water flow but are expected to improve during the balance of the year.

The commitments of AMP participants for the project represent their strong support for the long term economic and non-carbon value of the hydroelectricity generated. While Ohio does not have a renewable energy standard that is applicable to the AMP participants, the zero emissions on 208 MW is a positive long-term consideration. The combined project is part of AMP's power resource diversity strategy to lessen the wholesale market exposure of the participating municipal utilities. AMP has a diversified owned generation mix with its participation in the Combined Hydroelectric Projects; the Prairie State coal-fired generation facility; the Fremont Energy Center natural gas fired units and the Belleville, the Greenup, and Meldahl Hydroelectric facilities.

The rating also acknowledges the benefits of being a part of the AMP system which in addition to providing generation resources for the municipalities has implemented a strong credit monitoring program which includes monthly evaluations of participant credit quality by monitoring a credit scorecard that includes financial metrics.

**RATING OUTLOOK**

The rating outlook is stable given the hydro-electric facilities are in commercial operation and performing well. The stable outlook also recognizes the strong bond security provisions including the strong take-or-pay contract obligation of the 79 municipal participants.

**FACTORS THAT COULD LEAD TO AN UPGRADE**

\*Resolution of the pending litigation in a credit benign way that does not significantly impact the participant's cost of power.

\*Should participant credit quality improve

## FACTORS THAT COULD LEAD TO A DOWNGRADE

\*Any significant and sustained project operational problem and if project costs rise to a level that participants consider unsupportable causing them to consider challenging their take-or-pay power supply contracts with AMP.

\*If the average weighted credit quality of the participants should erode

## LEGAL SECURITY

Under the Master Trust Indenture, AMP pledges its net revenues, derived from take-or-pay power sales contracts with municipal electric utility participants, payable monthly regardless of whether the project is completed, operating or operable. The take-or-pay contracts have a 25% step-up provision. The master indenture includes a 1.10x rate covenant; 1.10x additional bonds test after commercial service; and a fully funded maximum annual debt service reserve. The participant payments are payable as an O&M expense of their respective electric systems. Legal opinions have been issued that the take-or-pay contracts are valid and enforceable. Moreover on December 7, 2007, the Franklin County, Ohio Court of Common Pleas issued a non-appealable order validating the power sales contract relating to another hydroelectric project between AMP and the Ohio participants in that project, including the take-or-pay and step-up provisions. Several of the participants are located in Michigan, Kentucky, West Virginia, and Virginia. Michigan, West Virginia and Virginia have passed specific legislation authorizing take-or-pay contracts, including step-up provisions with out-of-state corporations. Kentucky does not have specific statutory authority for electric plant boards to enter into long-term take-or-pay contracts but the Kentucky State Counsel has opined that KRS Chapter 96 provides sufficient authority for such contracts.

If there is a payment default of any participant, AMP has the power to suspend delivery, which in Moody's opinion, creates a significant incentive for the municipal participant to pay given the essential nature of the service. Should such a default occur, AMP would first offer the power to other project participants, other AMP members, other entities that are not AMP members (to the extent that doing so would not impact the tax advantaged status of AMP and/or its bonds) and then exercise the 25% step-up provision that requires non-defaulting participants to be legally responsible for any defaulted costs for up to 25% of their original entitlement.

## USE OF PROCEEDS

Proceeds will repay draws on the AMP line of credit, pay cost of issuance and fund the debt service reserve. .

## PROFILE

AMP operates like a joint powers agency and most of its members have home rule charters which permit retail rates to be set by the local governing boards with no external regulation. The Combined Hydroelectric Projects is a generation project secured by take-or-pay contracts with 79 member participants which includes three run-of-the-river hydroelectric facilities (8 units) along the Ohio River, Cannelton Project (88MW); Smithland Project (76MW); and Willow Island Project (44MW), with aggregate generating capacity of 208 MW and whose operating license from the Federal Energy Regulatory Commission expires in 2041, 2038 and 2039, respectively.

## 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.moody.com](http://www.moody.com) for a copy of this methodology.

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