

Research

American Municipal Power Inc.'s Series 2016A Green Bonds Rated 'A' With A Stable Outlook; Parity Debt Affirmed At 'A'

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NEW YORK (S&P Global Ratings) Sept. 9, 2016--S&P Global Ratings has assigned its 'A' rating to American Municipal Power, Inc.'s (AMP) combined hydroelectric project revenue bonds, series 2016A (green bonds), and affirmed its 'A' rating on AMP's parity debt outstanding. The outlook is stable. As of Dec. 31, 2015, more than \$2 billion of combined hydroelectric project debt was outstanding.

Proceeds of the 2016A bonds will be used to fund the remaining construction costs associated with the combined hydroelectric project, to repay draws on AMP's general line of credit that had been made to interim finance capital costs of the project, and to fund deposits into a parity debt service reserve account. Securing the bonds is the trust estate, which consists primarily of payments from the participants under the power sales contact.

The rating reflects our view of the long-term creditworthiness of the project. The three hydroelectric facilities--Cannelton, Willow Island, and Smithland--will total 208 megawatts (MW) of generating capacity, at three pre-existing dams owned by the United States Army Corps of Engineers. The project is part of a larger power supply strategy that includes other AMP projects.

We believe that the 'A' rating incorporates these credit strengths:

- A take-or-pay power sales contract with 79 of AMP's 134 members with a 25% step-up limit if any of the participants default on their payments.

The contract, which expires no earlier than 2057, obligates the participants to pay their share of all power costs, including debt service, regardless of whether some or all of the three projects are finished or operating;

- The credit strength of the largest participating members, which we believe is medium-investment-grade, and the project's relatively small portion of each member's power supply; and
- Our view that the hydroelectric power enhances the project's attractiveness because it is a renewable energy resource in an increasingly carbon constrained environment. We believe that the attractiveness would be further enhanced if the Environmental Protection Agency's Clean Power Plan is upheld by the courts or if other carbon reduction regulations are adopted.

However, the rating also incorporates the fact that the capital costs are high, in excess of \$10,000 per kilowatt (kW), including financing costs and capitalized interest. AMP projects that the project's all-in power cost will be above-market, but the small percent taken by each participant helps mitigate the impact on retail rates.

"The outlook reflects the stability afforded by the take-or-pay power sales contract and the depth and diversity of the participant base," said S&P Global Ratings credit analyst Jeffrey Panger.

S&P Global Ratings does not expect upward potential for the rating over the next two years given our assessment of the membership base, and projections of sufficiency coverage.

We could lower the rating within the next two years if Smithland suffers further meaningful delay in reaching commercial operation, particularly if the associated costs are ultimately met through additional debt issuance on this highly leveraged project.

AMP has 134 electric retail utility members serving more than 645,000 customers in Ohio, Michigan, Indiana, Maryland, Pennsylvania, Kentucky, Delaware, West Virginia, and Virginia.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located

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