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Summary:

American Municipal Power Inc.; Wholesale Electric

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Unenhanced Rating A(SPUR)/Stable Upgraded

Ohio Mun Elec Generating Agy (Belleville Hydroelec Proj Omega JV5) cap apprec. bnds dtd 07/26/2001 due 02/15/2025-2030

Unenhanced Rating A(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has raised its rating on the Ohio Municipal Electric Generation Agency's Joint Venture 5 (JV5), beneficial interest certificates (BICs) to 'A' from 'A-'. The outlook is stable.

JV5 is managed by American Municipal Power Inc. (AMP).

The upgrade reflects our view of the improved credit strength of the 10 largest project participants, which account for 76% of the project demand (96% after factoring their pledge of a 25% step-up in the event that any project participant defaults on its take-or-pay obligation). In our view, these project participants exhibit credit quality that are in the middle of the medium-investment-grade category.

The rating reflects the following credit strengths:

- The obligation of the project's 42 participating municipalities to pay debt service on the BICs, including a 25% increase in each participant's obligation to cover the default of any other participant;
- Project participants' generally good fixed cost coverage and strong liquidity;
- The relatively small reliance on the JV5 project to meet member supply requirements, mitigating the potential impact of run-of-river hydrology risk on each municipality's individual power resource portfolio;
- AMP's and members' rate-setting ability without regulatory oversight, coupled with provisions for passing through cost adjustments at both the wholesale and retail levels;
- Manageable project power costs, at \$60.41 per megawatt (MWh) in 2017;
- Adequate financial performance at the project level, with debt service coverage (DSC) that has generally ranged from 1.0x-1.1x (adjusted for deferred revenue, which are non-cash accounting treatments), and liquidity that ranged from 163-199 days of operating expenses. AMP maintains at the agency level significant liquidity (in the form of credit lines) that it can call on to meet individual projects' needs.

The project participants' credit strengths partially offsets these factors. Despite the generally strong financial metrics, a number of leading participants have customer concentration or sizable industrial loads, which can subject a utility to

demand volatility. Many of the leading participants are small municipal electric systems, with a number exhibiting low incomes and above-average rates. We believe this constrains revenue-raising flexibility.

In evaluating the composite profile, we have reviewed data related to the 10 largest participants. We view these leading participants as having credit quality in the 'A' category.

The remaining participants are generally smaller. They have limited financial flexibility and must distribute their fixed costs across a smaller pool of MWh sales. We therefore view them as having credit quality somewhat below that of the leading participants. However, because they represent very small shares and there is very low likelihood of simultaneous default on their obligations under their joint venture agreements, we believe that the leading participants can step up if necessary while maintaining their credit quality.

Ten of the 42 JV5 participants account for about 76% of project revenue; the 25% step-up provision included in the joint venture agreement means that these participants would provide about 96% if a participant defaulted. These leading participants exhibit generally good coverage of fixed costs (generally in the 1.4x range, with a couple of single-year exceptions) and strong liquidity (exceeding 100 days of operating expenses). However, their retail customer bases tend to have industrial and customer concentration. In 2016, the most recent year for which data available from the Department of Energy's Energy Information Administration is available, the largest participants' weighted-average rates range from about 10% below to 25% above the state average.

JV5 was created to finance the Belleville Hydroelectric project, a 42-megawatt (MW) run-of-the-river hydroelectric generation facility on the Ohio River in West Virginia. Belleville has had what we consider a good operating history since commencing service in 1999. Its power cost per MWh of \$60.41 in 2017 remains very competitive. However, the run-of-river nature of the Belleville Hydroelectric project, which subjects power dispatch to weather conditions and navigation needs, is an operating constraint. JV5 has been subject to river flow derates, forcing AMP to purchase more expensive spot market replacement power. That said, power costs are lower from projections when the project was conceived, and they are generally below the cost of the other components of participants' power supplies.

In 2016, AMP entered a direct loan to refinance certain JV5 beneficial interest certificates. S&P Global Ratings has reviewed the loan provisions and determined that, while there are acceleration events that are inconsistent with our criteria, the contingent risks are remote. Moreover, AMP maintains adequate liquidity in the form of undrawn capacity under a line of credit to respond to an acceleration event while maintaining its rating on the JV5 BICs.

Outlook

The stable outlook reflects our expectations of consistent operation of the Belleville Hydroelectric project and adequate financial metrics at the project level; no weakening in the members' financial risk profiles; and continued good project economics that result in competitive wholesale rates. We do not expect to raise or lower the rating in the course of our two-year outlook horizon.

Upside scenario

Given our view of the credit weaknesses of leading participants -- customer and industrial class concentration, low

incomes and above average rates -- we believe an upgrade to the JV5 project within the next two years is unlikely.

Downside scenario

Should our member financial metrics -- fixed cost coverage and liquidity deteriorate materially and broadly we could consider a negative rating action.

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