Tax-Advantaged Financing for Hydroelectric Facilities

American Municipal Power, Inc. Case Study

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Project Profile

- **American Municipal Power, Inc. completed Financing for three "run-of-the-river" hydroelectric facilities on the Ohio River**
  - Cannelton – 88 MW
  - Smithland – 76 MW
  - Willow Island – 44 MW

- **Current Estimated commercial operation dates for the three facilities**
  - Cannelton – Third Quarter 2014
  - Smithland – Second Quarter 2015
  - Willow Island – Fourth Quarter 2014

- **FERC licenses are owned by AMP and all permits are in hand for all three facilities**

Contractual Obligations and Investor Protections

- **Power Sales Contract with 79 Project Participants**
  - Take-or-pay “come hell or high water” commitments
  - 25% “step-up” provision
  - Contracts extend beyond the final maturity of the bonds
  - Top six participants account for 47% of allocated capacity and all have credit ratings in at least the “A” category
  - Participants provide geographic diversity
  - Most Participants set their own electric rates and exercise local control

- **Authority to enter take-or-pay Power Sales Contract**
  - Home Rule Powers of Ohio Participants; successfully validated in the Franklin County Court of Common Pleas
  - Statutory authority of non-Ohio Participants

Contractual Obligations and Investor Protections con't

- **Unqualified Legal Opinions as to validity and enforceability**
  - Opinions were unqualified as to the validity of Power Sales Contract and take-or-pay provisions

- **Master and Supplemental Trust Indentures**
  - 1.10X rate covenant
  - 1.10X additional bonds test 2 years after Commercial Operation
  - A fully funded Debt Service Reserve Fund
  - These tests are net of the BABs interest subsidy

Overview of Combined Hydroelectric Phase 1 Financing

- **First permanent financing in November 2009 - $666,435,000**
  - All-In TIC 4.221%
  - Comprised of four series of debt:
    - $24,425,000 Series A (Federally Taxable) All-In TIC 4.401%
    - $497,005,000 Series B (Federally Taxable – Build America Bonds) All-In TIC 4.218%
    - $122,405,000 Series C (Federally Tax-exempt) All-In TIC 4.228%
    - $22,600,000 Series D (Tax-Credit CREBs) Private Placement
- **Final permanent financing in December 2010 - $1,378,990,000**
  - All-In TIC 5.332%
  - Comprised of three series of debt:
    - $152,995,000 Series A (Federally Taxable) All-In TIC 7.498%
    - $1,109,995,000 Series B (Federally Taxable – Build America Bonds) All-In TIC 5.265%
    - $116,000,000 Series C (Tax Credit CREBs) All-In TIC 3.191%
- **Total Financing $2,045,425,000**
    - All In TIC 4.978%
    - Final Maturity Date February 2050
    - Expected to receive $1,308,129,639.16 in BABs subsidy over the term of the bonds
      - Sequestration reduced August 2013 subsidy payment by $1,832,540
    - Expected to receive $69,118,252 in CREBs subsidy over the term of the bonds
      - Sequestration reduced August 2013 subsidy payment by $204,867

Rating Agency Strategy

- In order to obtain financing at reasonable interest rates, presentations were made to rating agencies and bond investors demonstrating that:
  - The project was sound
  - AMP had a viable plan of finance and bond security provisions in place
  - The project would be well-managed after COD

The Project is Sound

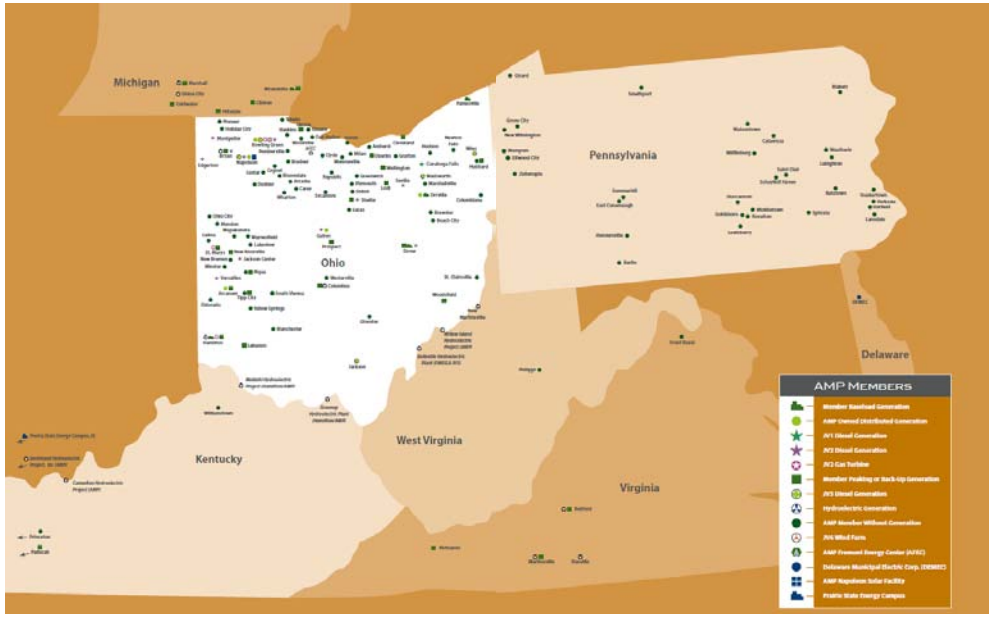
- Sawvel and Associates retained to perform feasibility study
- MWH Americas, Inc. (MWH) retained as Project Engineer
  - AMP chose three of the top five hydroelectric development sites on the Ohio River, as identified by MWH.
  - FERC licenses already in hand for all three sites
  - Each project is being constructed using bulb type turbine-generating
  - The physical life of each project is expected to exceed the life of all debt issued
- AMP employed experienced consultants and vendors

A Viable Plan of Finance

- AMP has substantial liquidity through a revolving $750 million line of credit expandable to $1 billion with a syndicate of banks
- AMP employed a multi-pronged financing structure, utilizing several tax-advantaged financing instruments
  - Taxable bonds
  - Tax-exempt bonds
  - Build America Bonds
  - Clean Renewable Energy Bonds

The Project will be Well-Managed after Commercial Operation Date

- AMP has relevant hydroelectric generation experience from constructing and operating a similar hydroelectric plant located on the Ohio River that has been in operation since 1999
- AMP monitors Participant credit quality on an ongoing basis
  - Financial strength must be demonstrated prior to becoming an AMP member
  - Members undergo annual review and credit scoring upon release of their annual audit
  - Credit scores were shared with Rating Agencies for initial rating as well as on an ongoing for rate reviews



Case Study: American Municipal Power, Inc.

In adverse market conditions, AMP was successful in pricing its entire $2.045 billion bond issue at levels producing an all-in total interest cost of 4.978%

- **Underlying credit ratings of A3/A/A (Moody's/S&P/Fitch)**
  - **Moody's rating of A3 due to multiple projects under construction**
  - **Moody's affirmed A3 rating May 20, 2013**
- **Transaction marketing plan included internet roadshows as well as numerous one-on-one investor conference calls**
- **Bonds were distributed to both institutional and retail investors,**
  - **Including 30 who had never owned AMP bonds previously and one international investor**
  - **For Series 2010 BMO carved out retail maturities in 2029 and 2030 which, when combined with other retail priority orders, enabled AMP to achieve a $56 million retail participation level**
- **Series 2010 bonds strategically utilized bond insurance to save 8bps, net of the upfront premium, on $27.3 million bonds**
- **Solid investor demand resulted in 1.5x oversubscription and allowed us to tighten credit spreads 15bps on $324 million bonds (accounting for 24% of aggregate par) from initial to final pricing**