Moody's INVESTORS SERVICE

Rating Action: Moody's revises rating outlook to positive on Alabama Municipal Electric Authority's Power Supply Revenue Bonds; A3 affirmed

Global Credit Research - 30 Sep 2015

Approximately $34.7 million in rated debt affected

New York, September 30, 2015 -- Moody's Investors Service has revised the rating outlook to positive from stable on Alabama Municipal Electric Authority's (AMEA, or Authority) 2013 Series A Power Supply System Revenue Refunding Bonds owing to improved financial metrics and a better liquidity profile. Concurrent with this outlook change, Moody's affirmed AMEA's A3 rating on the Revenue Refunding Bonds.

SUMMARY RATING RATIONALE

The outlook revision to positive considers an improved financial and liquidity profile following rate charge adjustments implemented by the AMEA. The positive outlook also captures benefits accruing to the authority resulting following from modifications to the Amended and Restated Power Supply Agreement that became effective 1 January 2013, three months into the then fiscal year. As such, we anticipate AMEA's debt service coverage ratio (DSCR) will be in the "A" range, or over 1.2x on a net revenue basis for fiscal year 2015 (ending September 30).

The A3 affirmation recognizes the credit strength of the eleven participant members (A1 weighted average credit quality); a sound legal security supporting the bonds; AMEA's improved willingness to increase rates and strengthen forward looking financial performance; and competitive wholesale power rates in the region. The affirmation acknowledges the potential for elevated carbon related risks as AMEA's fuel supply mix incorporates over 50% of coal-fired generation, and considers AMEA's historical volatile financial performance owing to contractual imperfections exacerbated by load and weather conditions. Changes incorporated into the 2013 Amended and Restated Power Supply Agreement are expected to mute load and weather issues on a prospective basis which should improve the predictability of AMEA's financial performance.

OUTLOOK

The positive rating outlook reflects strong fiscal year 2014 financial performance and strong year-to-date financial performance through July (the fiscal year ends September 30). We note that financial performance has shown meaningful volatility historically. To the extent that the changes adopted by AMEA prove to eliminate or substantially reduce this volatility in year-end 2015 or 2016 results, upward rating momentum should emerge.

WHAT COULD MAKE THE RATING GO UP

- Debt service coverage ratios on a net revenue basis above 1.2x on a sustained basis

- Improved liquidity profile such that days cash on hand are above 90 days

WHAT COULD MAKE THE RATING GO DOWN

- Decline in weighted average participant credit quality

- Material deterioration in the credit quality of AMEA's main power supplier

- Decrease in liquidity to below 30 days cash on hand

- DSCR below 1.0x times on a sustained basis

OBLIGOR PROFILE

AMEA is a joint-power agency providing electricity to its eleven participant members in southeastern and southern Alabama with a weighted average credit rating of A1. AMEA receives 100% of its energy and capacity needs from APC pursuant to a Power Supply Agreement in excess of the hydro power (approximately 10%) supplied by the Southeastern Power Administration, energy and capacity it receives from Santee Cooper, and energy and capacity it self-supplies from the AMEA-Sylacauga Plant. The power supply contract with APC expires in 2025, while the power sales contract AMEA has with its members (a take-and-pay, all requirements contract) expires in 2035. SEPA generally provides up to 9-10% of the authority's energy needs though this can vary as SEPA's energy is solely reliant on variable hydro flows. The authority has entered into an agreement with Tenaska Power Services Co., which allows AMEA to buy replacement energy for AMEA's resources.

AMEA also owns a 95MW GE LM6000 peaking facility financed through the 2003A bonds. The facility has generally performed in-line for peaking facilities with availability factors above 98% since commercial operations in May 2004. There is no LTSA agreement but all internal work related to the combustion turbines is done either by GE or TransCanada (certified OEM service provider). Balance of plant servicing is mostly through local contractors and AMEA self-performs its own O&M.

LEGAL SECURITY

Pledge of gross revenues derived from payments from AMEA's eleven members under take-and-pay, all-requirement power sales contracts; a sum sufficient rate covenant; cash-funded debt service reserve fund sized at maximum annual debt service of approximately $2.86 million. Each member has agreed, pursuant to its contract, to pay deficiencies on a pro rata basis if net revenues are insufficient to meet debt service. The security package also includes an interest in all funds established by the authority including construction funds, operating and maintenance funds, general reserve funds, and debt service reserve funds.

USE OF PROCEEDS

Not Applicable

RATING METHODOLOGY

The principal methodology used in this rating was US Municipal Joint Action Agencies published in October 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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