

CREDIT OPINION

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VERMONT PUBLIC POWER SUPPLY AUTHORITY - SWANTON PEAKING FACILITY PROJECT

Moody's maintains Baa1 rating on Vermont Public Power Supply Authority's Swanton Project Bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service maintains the Baa1 rating on Vermont Public Power Supply Authority Project 10 (Swanton Peaking Facility Project) Bonds. The outlook is stable.

The Baa1 rating on the VPPSA - Swanton project bonds reflects the legal security of the take-or-pay power sales agreements with 11 municipal electric utilities and 1 rural electric cooperative which have an estimated Baa1/Baa2 weighted average credit quality. The rating also considers the requirement for Vermont municipal utilities to have their rates approved by the Vermont Public Service Board (though VPPSA has unregulated rate setting authority), and recognizes the additional note obligation the project took on as a result of costs incurred during construction and start-up operations which increases the total project cost to the participants. The rating further considers the plant's status as a peaking facility, with the project participants benefiting from owning a local resource that can bid into the forward capacity and energy markets, and realize value from its ancillary services.

Credit Strengths

- » Take-or-pay power sales agreements have been legally validated in the state and are a major source of cash flow security
- » The Swanton facility provides the participants with fast start reserve capacity, a highly valued market product by ISO-NE due to its ability to quickly help stabilize the New England electrical grid
- » VPPSA has a track-record of consistent financial management, and maintains an active role in its participants' electric systems by assisting in rate-making and other management services

Credit Challenges

- » Estimated Baa2 weighted average participant credit quality reflects weaker participant profiles securing the obligations under the power sales agreements

- » Though VPPSA has unregulated rate setting authority, the Vermont Public Service Board (VPSB) regulates the Swanton participants' electric rates which could limit the scope of rate increases necessary to meet obligations under the power sales agreement
- » Conversion of a \$3.5 million revolving credit line into an amortizing note payable due in 2017 to accommodate cost increases during construction, increasing the overall cost of the Swanton project to the participants
- » Single asset concentration

Rating Outlook

The stable outlook reflects our expectation for steady operating and financial performance at the project.

Factors that Could Lead to an Upgrade

- » Notable improvement in the project participants' weighted average credit quality

Factors that Could Lead to a Downgrade

- » Material deterioration in the project participants' weighted average credit quality
- » Unexpected major outages that impact financial performance

Key Indicators

Exhibit 1

VERMONT PUBLIC POWER SUPPLY AUTHORITY - SWANTON PEAKING FACILITY PROJECT

	2011	2012	2013	2014	2015
Debt Outstanding (\$'000)	26,015	24,635	23,225	21,785	20,320
Debt Ratio (%)	100	100	99	94	91
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	225	257	255	588	718
Debt Service Coverage Ratio (x)	1.07	1.05	1.04	1.29	1.27

Source: Moody's Investors Service and Audited Financial Statements

Recent Developments

Recent developments are incorporated in the Detailed Rating Rationale.

Detailed Rating Considerations

Revenue Generating Base

PARTICIPANT WEIGHTED AVERAGE CREDIT QUALITY ANCHORS THE PROJECT RATING

Bondholder security is derived from the project's take-or-pay power sales agreements with 11 municipal electric distribution utilities and one rural electric distribution cooperative located in northern Vermont. The participants are obligated to make pro-rata payments based on their participant share to cover operating expenses and debt service costs, regardless if the Swanton plant is in operation. Step-up provisions require transfer of a defaulting participant's share of costs and debt service to the remaining non-defaulting participants, subject to a 25% limit of each non-defaulting participant's original participation share.

Each participant's obligation was approved by the VPSB and then authorized by voter approval and subsequent board resolution in each of their respective jurisdictions. Similar take-or-pay contracts in Vermont have been previously court-validated by the Vermont

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Supreme Court, which also affirms the validity of municipalities to enter into take-or-pay contracts within the state, providing further legal security to the contracts that underpin the Swanton debt.

While Moody's does not maintain ratings on any of the Swanton participants, the estimated weighted average credit quality for all Swanton participants is between the Baa1/Baa2 category. Most of Swanton's participants are small utilities with under 6,000 customers, though Vermont Electric Cooperative (VEC) serves close to 40,000 customers. The villages of Lyndonville, Northfield, and Ludlow represent three of the larger participants. Many of the project's participants financial metrics deteriorated during the challenging 2008-2009 period as a result of overall weak economic conditions and a decision to delay needed rate increases owing in part to a weak economy. Since then, the Swanton participants have strengthened their financial positions by implementing rate increases in 2009 and 2010.

While VPPSA is free from regulation when setting its rates, municipal electric utilities across the state are subject to rate regulation and oversight by the VPSB (unique in the municipal power sector), which we view as a weakness and potential constraint to full and timely cost recovery. Since 2009, the VPSB has generally accommodated rate increase requests in full or close to the amount requested by the respective participant. These rate increases have resulted in higher net operating revenue for each of the participants, which indirectly benefits the financial profile for the Swanton project bonds.

LIMITED PLANT DISPATCH IS TEMPERED BY THE BENEFITS OF A FULLY-OWNED ASSET THAT EARNS FORWARD CAPACITY REVENUE AND ANCILLARY SERVICES

As a peaking plant, the facility is not anticipated to have many run hours in a given year, but its strategic value rests in the reliability it offers to both the project participants and the New England region as a whole and its ability to sell its capacity into the forward and real time markets. Swanton has "Fast-Start" capabilities, with the ability to produce maximum capable output (24 MW) within ten minutes of being called upon, and is compensated by ISO-NE for that service. It will be incumbent on VPPSA to manage the major maintenance needs of the facility in order to meet the plant's Capacity Supply Obligation in each year to earn capacity revenue from ISO-NE. VPPSA has hired a dedicated plant operator at Swanton who is responsible for monitoring day-to-day operation and maintenance activities. We view this development as credit positive to the plant's operational profile. Facility availability was maintained at 99% during 2013-2015, and capacity factors were below 1%, which reflects the plant's peaking position along the dispatch curve. Recent capacity auction results in the region, which are in excess of the capacity revenues paid by the participants, demonstrate the value of the plant for its participants.

Financial Operations and Position

Swanton's adjusted debt service coverage ratio measured 1.28x and 1.20x in 2014 and 2015, respectively, an increase over the three prior years which were all approximately 1.05 times. The higher coverage levels in the past two years are due primarily to additional amounts billed to project participants for the purpose of building up a project reserve fund. These billings increased project revenues. However, due to the nature of the project in several regional markets, the project participants received credits through the authority's power settlement process of \$6.2 million and \$5 million in 2014 and 2015, respectively, offsetting the higher invoices.

We anticipate that coverage levels should improve further post-2017 once the term loan has been fully amortized. Overall, the project's annual debt service obligation is level through maturity at approximately \$1.96 million per year, with an additional \$500,000 plus interest through 2017 to cover the debt service needs on the term loan.

LIQUIDITY

The project's unrestricted liquidity was steady from 2011-2013, averaging 210 days cash on hand. In 2014 and 2015, days cash improved to 588 days and 718 days, respectively, due to the extra participant billings for the accumulation of the project reserve fund. In 2016, further increase to 1,100 days is projected. The project reserve fund is expected to be used for future capital projects, but is unrestricted money and could be used for either capital improvements and/or for operating expenses. This liquidity helps mitigate any financial risk related to operating performance, and alleviates any potential timing mismatch between cost outlays and recovery from participants, particularly if any true-up would require a participant to file a 45-day rate case. Through 2017, the project also has access to a \$6 million line of credit, which is available for all VPPSA uses, including internal needs and other VPPSA projects.

Debt and Other Liabilities

The project has one series of bonds, the Series 2009 A and B Bonds (\$19.445 million outstanding at fiscal year-end 2015) maturing in 2029 and one variable rate note payable (\$875,000 outstanding at fiscal year-end 2015) maturing in 2017. There are no debt issuance plans for the near-term future.

DEBT STRUCTURE

The bonds' amortization is level through final maturity, which is in 2029.

DEBT-RELATED DERIVATIVES

The authority is party to a interest rate swap with KeyBank National Association (Aa3/Possible Downgrade) as a hedge to the variable rate note payable that VPPSA entered into on behalf of the Swanton project. Under the swap agreements, the authority pays to the swap counterparty a fixed rate of 1.68% and receives a variable rate equal to USD-LIBOR-BBA. Scheduled swap payments and any termination payments are subordinate to senior lien debt. An additional termination event for the swap is an Event of Default under the Loan Agreement, and an Event of Default under the Loan Agreement includes any material adverse change. The existence of this broad MAC language in the note agreement is viewed negatively from a ratings perspective.

PENSIONS AND OPEB

The financial impact of unfunded and OPEB obligations of this issuer are minor and thus not currently a major factor in our assessment of its credit profile.

Management and Governance

The authority's Board of Directors consists of 12 directors, with one director elected by the legislative body of each of the 12 municipal members.

Legal Security

Pledged net revenues are derived from the power sales agreements with 11 municipal electric utilities and 1 rural electric cooperative according to their project entitlement shares. The bond rate covenant is sum-sufficient, and there is no additional bonds test although any issuance is subject to approval by the VPSB. The debt service reserve fund is fully cash funded and sized to meet maximum annual debt service.

Use of Proceeds

Not Applicable.

Obligor Profile

The authority is a joint action agency established in 1979. There are 12 members in the authority, all of which are municipal electric utilities in Vermont. The Swanton Project is a 40 MW dual-fuel peaking electric generation plant in Swanton, VT that achieved full commercial operations in June 2010. The plant has "Fast-Start" capabilities and is mostly utilized for reserve capacity purposes in the ISO-NE forward and real time markets.

Scorecard Factors and Other Considerations

Note: The grid is a reference tool that can be used to approximate credit profiles in most cases. However, the grid is a summary that does not include every rating consideration. Please see US Municipal Joint Action Agencies methodology for information about the limitations inherent to grids.

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.moody's.com for a copy of this methodology.

Exhibit 2

Factor	Subfactor/Description	Score	Metric
1. Participant Credit Quality and Cost Recovery Framework	a) Participant credit quality. Cost recovery structure and governance	Baa	
2. Asset Quality	a) Asset diversity, complexity and history	Baa	
3. Competitiveness	a) Cost competitiveness relative to market	Baa	
4. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	520
	b) Debt ratio (3-year avg) (%)	Baa	94%
	c) Debt service coverage ratio (3-year avg) (x)	Baa	1.2x
Material Asset Event Risk	Does agency have event risk?	No	
Notching Factors		Notch	
	1 - Contractual Structure and Legal Environment	0	
	2 - Participant Diversity and Concentration	0	
	3 - Construction Risk	0	
	4 - Debt Service Reserve, Debt Structure and Financial Engineering	-0.5	
	5 - Unmitigated Exposure to Wholesale Power Markets	0	
Scorecard Indicated Rating:		Baa1	

Source: Moody's Investors Service

RATINGS

PROJECT 10 REVENUE BONDS SWANTON PEAKING FACILITY PROJECT SERIES 2009A

Rating	Baa1
Outlook	Stable

PROJECT 10 REVENUE BONDS SWANTON PEAKING FACILITY PROJECT SERIES 2009B

Rating	Baa1
Outlook	Stable

Source: Moody's Investors Service

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