

**Rating Action: Moody's affirms Hoosier Energy Rural Electric Cooperative senior secured rating at A2 and issuer rating at A3; outlook stable**

---

24 Oct 2018

New York, October 24, 2018 -- Moody's Investors Service today affirmed Hoosier Energy Rural Electric Cooperative Inc (Hoosier) senior secured rating at A2 and issuer rating at A3. The rating outlook remains stable.

**RATINGS RATIONALE**

"The rating actions consider Hoosier's sound G&T cooperative business model, anchored by the long-term all-requirements contracts in place with its members which extend to 2055, rate setting autonomy under the contracts, and a not-for-profit low-business-risk operating structure", said Sarah Lee, Analyst. "Tempering these credit positive traits are various degrees of credit risk with Hoosier's small size, comparatively weak equity position relative to similarly rated peers, and in regards to its coal plant, both asset concentration and exposure to carbon transition risk. The potential for capital spending relating to the longer-term issues of maintenance of its coal-fired generation plant and carbon and other environmental regulations is a particular area of concern."

Hoosier has elevated carbon transition risk relative to publicly-owned utilities, with approximately 75% of Hoosier's energy resources in 2017 coming from coal generation. With a supply portfolio dominated by coal, the cooperative is exposed to the lingering uncertainty and risk of potentially needing to make a more rapid transition in its supply portfolio down the road should state/federal carbon policies change. This could bring added compliance costs and introduce additional operating and financial challenges, or create the potential for stranded costs if the plant is shut down before the end of its useful life.

On average, Hoosier's financial metrics are generally commensurate with the profile for "A" rated cooperatives. Three-year average financial metrics for 2015-2017 include funds from operations (FFO) to debt of 8.6% and FFO to interest of 3.18x, both comfortably in line with the "A" rating category according to our Rating Methodology for U.S. Electric Generation & Transmission Cooperatives.

Hoosier's equity to capitalization metric, however, is still considered to be weak for a G&T cooperative in the "A" rating category. After dipping modestly below 16% in 2012-2013, it has improved in each of the past three years (2015-2017) resulting in a three-year average of 19.3%. No base rate increases were implemented since 2011 due to cost savings, and only minor rate adjustments are planned for the forecast period (2018-2022) again owing to cost savings. However, with the PCA adjusting for any changes in fuel and purchased power costs, management forecasts indicate a gradual yet sustainable improvement in the equity ratio, even while continuing regularly scheduled returns of patronage capital to members. During the past two years, the distributions have been roughly \$6.5 million annually. We expect that the board will implement modest rate adjustments in subsequent years of the current five-year forecast, if necessary, to ensure maintaining financial metrics at current levels or better.

Hoosier maintains adequate liquidity by supplementing its internally generated cash flow with a multi-year \$300 million senior unsecured, committed, syndicated revolver which expires August 11, 2021. The syndicate includes a group of six U.S., international, and regional financial institutions, led by National Rural Utilities Cooperative Finance Corporation, and the facility has a \$100 million accordion feature. The quality of the external source of liquidity is considered sound, given its multi-year tenor and there are no onerous financial covenants or any ongoing material adverse change clause as part of the representations and warranties for each borrowing request. The facility had the full \$300 million available as of June 30, 2018. In addition, Hoosier has about \$67 million of approved but unfunded loans from the Rural Utilities Service (RUS).

Hoosier reported an unrestricted cash and short-term investments balance of \$106 million, and current maturities of long term debt of \$68 million as of December 31, 2017. Hoosier also has a cushion of credit investment account with the RUS, which had a balance of approximately \$116 million at December 31, 2017. The cushion of credit account earns a RUS prescribed 5% interest and all balances deposited, along with interest earned, are restricted solely for repayment of money borrowed under the RUS loan program.

## Rating Outlook

The stable rating outlook for Hoosier takes into account our view that the Hoosier board of directors will periodically raise rates if necessary to keep Hoosier on pace with achieving its financial objectives and to cope with other execution risks tied to its capital program over the next several years, particularly related to environmental regulation.

### What Could Change the Rating -- Up

The rating could be upgraded if the board remains proactive in obtaining any member support for additional rate increases that might be necessary over the next several years resulting in strengthened financial metrics, including FFO/debt greater than 10.0% and equity to capitalization ratio exceeding 30% on a sustained basis. Also, a rating upgrade is possible with effective management of environmental risks, particularly related to the concentration and dependence on the coal-fired Merom Station, and economic activity improves at a faster than anticipated pace, leading to increased electricity sales.

### What Could Change the Rating -- Down

A rating downgrade could occur if there is deterioration in financial performance (e.g., FFO to debt ratio falling below 6% or equity capitalization decreasing to below the mid-teens percentage for an extended period of time). Moreover, a rating downgrade is possible if there are operating difficulties in its baseload generating fleet, if there is movement to subject Hoosier to rate regulation, or if capital expenditures required by regulation should increase to a burdensome level.

Hoosier Energy Rural Electric Cooperative Inc, is an electric generation and transmission cooperative headquartered in Bloomington, Indiana. Hoosier supplies energy to 18 distribution cooperatives in central and southern Indiana counties, and Southeastern Illinois. For the year-ended December 31, 2017, Hoosier reported revenues of \$674 million.

The principal methodology used in these ratings was US Electric Generation & Transmission Cooperatives published in August 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

Sarah Lee  
Analyst  
Project Finance Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

A.J. Sabatelle  
Associate Managing Director  
Project Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors

to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.