FITCH AFFIRMS AMP FREMONT ENERGY CENTER PROJ REVS AT 'A'; OUTLOOK STABLE

Fitch Ratings-New York-28 May 2014: Fitch Ratings affirms the 'A' rating on the following American Municipal Power, Inc. (AMP), AMP Fremont Energy Center (AFEC) project revenue bonds:

--$20.5 million project revenue bonds, series 2012A (federally taxable);
--$525.5 million project revenue bonds, series 2012B (tax-exempt).

The AFEC participants are all members of AMP.

The Rating Outlook is Stable.

SECURITY
The bonds are secured by debt service payments made by the 87 AFEC participants pursuant to the power sales contracts. The payments are obligations of the participants' payable as operating and maintenance expenses of their electric utility systems.

KEY RATING DRIVERS

COMPETITIVE OPERATING ASSET: AFEC is a 675 MW combined cycle natural gas-fired generating plant that entered commercial operation on Jan. 20, 2012. Operating performance to date has been strong. The AFEC project provides the project participants with competitively priced natural gas-fired capacity and energy ($51.43/MWh in 2013) that is expected to continue over the long-term.

ENTIRE OUTPUT CONTRACTED: AMP's entire share of project output is purchased pursuant to take-or-pay power sales contracts with 87 municipally-owned electric systems and one electric cooperative that obligate the purchasers to pay for their respective shares of all project costs. Debt service is paid entirely by the municipal systems and all are members of AMP.

FAVORABLE FUEL ARRANGEMENTS: The project's proximity to numerous interstate pipeline systems and access to ample capacity and gas supplies mitigates the risks associated with volatile fuel costs, which represented 67% of 2013 operating costs. Procurement, purchasing and hedging activities are managed by The Energy Authority, an experienced service provider.

CONCENTRATION OF SATISFACTORY PURCHASERS: The participants include a geographically and economically diverse group of cities in seven states. The six largest purchasers, which include the cities of Cleveland (OH), Danville (VA), Hamilton (OH) and the Delaware Electric Membership Corporation (DEMEC; rated 'A-'/Outlook Positive by Fitch), together account for 51.4% of the project output. All six exhibit satisfactory credit characteristics and utility fundamentals, but some have experienced declining electric sales and customer bases in recent years.

STANDARD CONTRACT STEP-UP PROVISION: The power sales contracts include standard step-up provisions that require each participant to purchase up to 125% of its original allocation of the project output in the event that another participant defaults.

RATING SENSITIVITY

CHANGES IN PARTICIPANT METRICS: The operating and financial metrics of the project participants, many of which are participating in sizable new power projects under development, will continue to be a key rating factor in future reviews.

CREDIT PROFILE

AMP is a nonprofit wholesale power supplier and services provider that was organized in 1971 for the benefit of its members. As of December 2013, AMP reported 129 members located throughout seven states (Ohio, Kentucky, Pennsylvania, Michigan, Virginia, West Virginia, and Delaware). All but one of the members owns and operates a municipal electric system. Together, the AMP members serve 625,000 retail electric customers.

AMP continues to develop a portfolio of diverse power supply resources that includes coal-fired generation, hydroelectric generation, natural gas, wind, solar and landfill gas power projects. AMP's diverse resource portfolio is designed to meet the growing energy requirements of its members and transition away from market purchases. AMP is developing its newest resources as separate and distinct projects consistent with its traditional resource strategy.

SEPARATE AND DISTINCT PROJECT

AFEC is a natural gas-fired combined cycle generating plant located in Sandusky County, Ohio. The plant has a nominal base generating capacity of 512 MW but is capable of achieving an additional 163 MW of supplemental peaking capacity.

AMP entered into related agreements with two public power entities - Michigan Public Power Agency (MPPA) and Central Virginia Electric Cooperative (CVEC) - that resulted in AMP retaining a final ownership interest of 94.84% in AFEC. MPPA and CVEC both financed their respective capacity allocations under separate arrangements.

Each of the AMP project participants is required to pay its proportional share of the AFEC project costs pursuant to the power sales contracts. Each participant's obligation is take-or-pay, requiring it to pay its share of all costs (including debt service) whether or not the project is operating or operable. The power sales contracts also contain a relatively standard step-up provision that would require each participant to purchase up to 125% of its original purchase obligation if another participant were to default on its obligations.

SOLID PROJECT OPERATING PERFORMANCE

AMP acquired AFEC on July 28, 2011 from FirstEnergy Generation Corporation, which had earlier purchased the plant from Calpine Corporation. Construction and testing were subsequently completed and AFEC was declared to be in commercial operation on Jan. 20, 2012. Since then the plant has performed above expectations, with average availability and capacity factors of 84% and 44%, respectively during 2013. Actual operating costs at AFEC through April 2013 have also compared favorably to actual electricity prices in the PJM market.

DIVERSE PROJECT PARTICIPANTS

The AFEC project participants are comprised of 87 municipal electric systems located throughout seven states. Sixty-five of the participants are located in Ohio, but two of the six largest are located in Delaware and Virginia. Although the power supply arrangements for the participants vary, each has agreed to purchase its respective share of capacity and energy from the project in order to meet a portion of its system demand.

Ownership interests in the project among the participants range from 15.07% (DEMEC) to 0.02% (six Ohio-based municipalities) and are appropriately sized based on peak demand. Sixty-seven of the participants have shares of less than 1%, while the largest six account for 51.4% of project ownership and entitlement.

PARTICIPANT FINANCIAL PROFILE

The AFEC project's financial position is heavily supported by the creditworthiness of the participating members, which typically exhibit satisfactory cash flow, modest leverage, and healthy cash balances. Fitch has reviewed updated financial metrics for the six largest participants and believes that the credit quality of the participants supports the assigned rating but is relatively weak compared to similarly rated credits. None of the participants are rated by Fitch, with the exception of DEMEC. However, debt service coverage, leverage and liquidity metrics for the participants reviewed are generally consistent with the medians for Fitch-rated retail systems.

Contact:

Primary Analyst
Hugh Welton
Director
+1-212-908-0742
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Dennis M. Pidherny
Managing Director
+1-212-908-0738

Committee Chairperson
Christopher Hessenthaler
Senior Director
+1-212-908-0773

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'U.S. Public Power Rating Criteria', dated March 14, 2014.

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U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841