

**Rating Update: Moody's Affirms A1 Issuer Rating on American Municipal Power, Inc.**

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Global Credit Research - 28 Feb 2014

**Strong Cost Recovery Process and Sound Participant Credit Quality**

AMERICAN MUNICIPAL POWER, INC.  
Joint Power/Action Agency (JPA)  
OH

**Opinion**

NEW YORK, February 28, 2014 --Moody's Investors Service has affirmed the A1 issuer rating on the American Municipal Power, Inc. (AMP). The issuer rating of A1 represents our opinion of AMP's credit including the well established sound record of AMP's unregulated ability to recover its costs on a timely basis; the strong legal contracts; adequate liquidity and management's strategic focus on providing a diverse, reliable and competitive power supply portfolio for its members.

The issuer rating also takes into consideration the average weighted credit quality of AMP members of A2 with the 129 unregulated municipal electric utilities spread across a large geographic area in seven states. These municipal utilities also have unregulated rate setting and an established record of recovery of AMP's wholesale power supply charges. The broad service area economy of the members has rebounded since the last recession yet retail electricity demand growth for the majority of municipal utilities has been slower than what had been projected. Overall 0.5% to 1% load growth is projected over next several years. Health care and manufacturing in the region has experienced positive trends, unemployment is near the US average and forecasts indicate the economic recovery will continue but slightly lag the U.S.

The issuer rating takes into consideration the important role AMP has played in managing the competitive and reliable power supply of its members, including the successful implementation of its fuel diversification strategy. AMP historically had derived most of its power supply from the regional wholesale energy markets with members entering into take-and-pay power supply contracts. The take and pay power supply contracts are not secured by the full faith and credit of the respective cities.

To better diversify the fuel mix and to obtain generation ownership, in the past few years, AMP has financed obtaining ownership interest in new coal, and natural gas-fired generation and four hydro-electric projects on the Ohio River. The AMP revenue bonds issued were on a take-or-pay basis with each participant electing to subscribe for the project. The legal security for the AMP revenue bonds is considered strong. Combined the AMP project debt outstanding amounted to \$5.8 billion as of January 1, 2014. AMP has a line of credit secured by all 129 members. As of January 1, 2014, AMP had \$573.8 million available on the line of credit.

The integration of the new generation assets into AMP's power supply and the related operating risks represent a new challenge for AMP to manage. AMP recently obtained an equity interest in the The Energy Authority to assist in its mitigation of risks in the wholesale energy markets.

AMP has had a well established record as a wholesale provider and has had limited credit exposure. AMP's oversight role in monitoring member credit quality is a positive consideration and is heavily weighted in the rating assigned. The monitoring permits early warning signs should a municipal utility member face financial challenges.

**Outlook**

The rating outlook is stable considering AMP's sound management of its reliable power supply plan; the stable credit position of AMP's members and AMP's strong legal cost recovery provisions and oversight role on the enforceability of its contracts and operations.

**What Could Change the Rating UP:**

The rating could be upgraded should AMP's participant credit quality improve; the joint agency's balance sheet

strengthen with internal cash; and once the new generation units achieve a record of successful operation.

What Could Change the Rating DOWN:

The rating could be downgraded if AMP's financial liquidity weakens; or should member credit quality weaken; or there be a legal challenge to AMP's legal structure or its strong cost recovery provisions.

#### DETAILED CREDIT DISCUSSION

Recent Developments:

\*AMP extended its line of credit to 2019.

\*AMP average wholesale rate to its 129 members was in the mid-\$60/mwh range in 2013.

\*Cannelton Hydro is scheduled for commercial operation fourth-quarter 2014 or early first quarter 2015; Smithland Hydro by late 2nd quarter or early first-quarter 2015; Willow Hydro second or third quarter 2015 and Meldahl Hydro by first quarter 2015. Each of the hydro projects has sufficient contingency funds given current estimates of completion costs.

\*The two-unit Prairie State coal-fired generation facility went into commercial operation in 2012, Unit 1 in June 2012 and Unit 2 in November 2012, about six months after the revised guaranteed commercial operation dates. Unit 1 was completed on January 1, 2012 and went commercial six months later in June 2012.

Since commercial start dates, both units experienced performance issues as is typical of large coal-fired generation units in the first year of operation. The capacity factor had been in the 60% range. Improvements have taken place for example, the boiler improvement project to fine tune the combustion, air flow, pressures and temperatures has recorded progress. Project management has established a defined plan to improve the capacity factors to the 85% to 95% range with progress slated for the Spring 2014 outage.

The delay in the commercial operations of Prairie State marginally impacted AMP given the low power market prices for replacement power and the recoupment of liquidated damages for delays and some unused bond funds available for capex or to pay debt service. Prairie State is also a key asset in AMP's power mix but on average represents about 15% of a participant's power supply mix.

\*A Securities Exchange Commission (SEC) subpoena served on AMP relating to the Peabody Energy Corporation (senior unsecured rated Ba2) development of the Prairie State Energy Project remains uncertain as to importance. Peabody has disclosed that the investigation is not material.

\*Build America Bonds interest subsidy will be reduced by 7.2% in FY 2014 as part of the federal budget sequestration.

\*AMP filed litigation AMP Inc. v. Bechtel Power Corporation in February 2011 seeking \$100 million of sunk cost recovery from the canceled AMPGS project. Trial now not expected to start until 2014. The expended funds were pursuant to a take-or-pay contract obligation.

\*Purchased power as % of power mix is down below 50% for AMP for first time ever in 2013

\*New peaking resources are projected to be needed by 2016 as one approach to meeting peak requirements. AMP member resource plan forecasts over 1100 MWs of new peaking resources are needed

Strengths:

\*Average weighted credit quality of AMP members is A2 spread over a large geographic area

\*Strong legal cost recovery provisions with unregulated rate setting

\*Power supply contract for 50-years by members for project financings indicates strong support for AMP's role as a regional power supplier

\*AMP and Amp municipal utility members are exempt from provisions of the Ohio retail choice law and the state's renewal standard. Once the new AMP hydro units are commercial, AMP and its members will derive 21% of the power supply from renewal energy.

\*Competitive current and projected member retail rates

\*AMP has a well-regarded fiscal monitoring system to provide ongoing assessment of members' credit profiles including evaluation of financial metrics

\*Coal as % of AMP energy mix is about 25% versus about 75% in Ohio

Challenges:

\*No assurances that environmental regulation will remain the same. Expected new EPA regulations on greenhouse gas emissions could place further uncertainty on coal-fired generation.

\*Some of the smaller participants of AMP Prairie State ownership have questioned the higher than projected cost per Mwh of Prairie State. Requests for an Ohio State Attorney General investigation has not resulted in any review of the power sales contracts those participants entered into prior to project construction.

\*Regional energy prices have fallen due to the decline in natural gas prices. To the extent natural gas prices remain low and drive the regional energy price, this is a potential pressure for AMP's higher cost coal resources

\*Once the hydro-units become commercial AMP will derive more than 15% of its power supply from hydro assets which could be subject to some operating variances due to river flow conditions. However, the historical record and the US Army Corps of Engineers managed flow for navigation should be mitigating factors.

American Municipal Power, Inc.

AMP was established by state statute (Ohio Revised Code Chapter 1702) as a non-profit corporation in 1971. AMP is governed by a 20-member Board of Trustees made up of officials from 19 member municipalities and Delaware Municipal Electric Corporation. AMP operates like a joint powers agency. AMP has obtained a determination letter and qualifies as a Section 501(c) 12 corporation and has a private letter ruling that in effect permits it to issue tax-exempt bonds.

AMP has a master services agreement with all its members that provides a legal framework for the relationship of the municipal electric utility and AMP as it relates to power pools, energy products, power supply arrangements and individual services. The AMP members from the other states have specific state statutes that govern their authority and participation in power sales contracts and take-or-pay obligations.

The non-coincident peak demand of AMP's 129 members was 3,512 MW registered in 2013. AMP electric revenues were \$823 million in 2012. AMP provides wholesale power services to over 625,000 customers in the seven states.

AMP was in compliance with all its revenue bond covenants in 2013.

KEY INDICATORS Joint Action Agency-All-Requirements Methodology Scorecard Factors: Issuer Rating:

Factor 1-Cost Recovery Framework: (25%) A2

Factor 2- Resource Risk Management: (10.0%) A

Factor 3-Cost competitiveness: (15%): A

Factor 4 (a) Three Year Average Days liquidity on hand: (10%): A

Factor 4 (b) Three Year Average Debt Ratio (5%): Baa (consolidated)

Factor 4 (c) Three Year Average Fixed Charge coverage ratio (10.0%): Baa

Factor 5 Willingness to Recover Costs with Sound Financial Metrics: (25%) A

Grid Indicated Rating: A2

Notching - Positive 0.5 Notch up for AMP cost recovery and monitoring program and positive 1.0 notch up for participant diversity

Final Scorecard Indicated Rating: A1

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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](http://www.moodys.com) for a copy of this methodology.

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