FitchRatings

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

Fitch Ratings-New York-26 May 2016: Fitch Ratings has affirmed the 'A' rating on the following American Municipal Power, INC. (AMP), AMP Fremont Energy Center (AFEC) project revenue bonds:

--$520 million project revenue bonds, series 2012B (tax-exempt).

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 (PSCs). 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. Aside from a brief unplanned outage currently in effect, operating performance to date has been strong. The AFEC project provides the participants with competitively priced natural gas-fired capacity and energy ($53.32/MWh in 2016) 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 PSCs 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.

SOLID PARTICIPANT CREDIT QUALIY: 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 Stable 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.

FAVORABLE FUEL ARRANGEMENTS: The project's proximity to numerous interstate pipeline systems and access to ample capacity mitigates the risks associated with fuel supply. Procurement, purchasing and hedging activities are managed by The Energy Authority, an experienced service provider.

STANDARD CONTRACT STEP-UP PROVISION: The PSCs 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 SENSITIVITIES
CHANGES IN PARTICIPANT CREDIT METRICS: The rating on the American Municipal Power, Inc. Fremont Energy Center (AFEC) Project bonds is sensitive to shifts in the operating and financial metrics of the project participants. Changes in credit quality as a result of regional

economic trends, fluctuating power project costs, and adopted financial policies could result in a corresponding rating change.

CREDIT PROFILE

AMP is a nonprofit wholesale power supplier and services provider organized in 1971 for the benefit of its members. As of Feb. 1, 2016, AMP reported 132 members located throughout nine states (Delaware, Kentucky, Michigan, Ohio, Pennsylvania, Indiana, Maryland, Virginia, and West Virginia). Together the AMP members supplied approximately 16 million MWhs of electricity to approximately 637,000 retail electric customers for a total of $1.1 billion in gross sales in 2015.

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 PSCs. 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. 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 87% and 47%, respectively, over the past three years. The plant has been dispatching almost on a daily basis throughout 2016 as actual operating costs this year have also compared favorably to actual electricity prices in the PJM market.

Concerns over AFEC's high levels of dispatch over the past few years are mitigated by a long-term service agreement that sets out requirements for ongoing preventative maintenance and the plant's regular dispatching, which limits the wear and tear associated with frequent starts/stops.

The project's unit #2 is currently off-line following a planned outage for routine maintenance that was completed in mid-April. Days after the routine maintenance was completed, operating issues were found. An investigation determined necessary repairs resulting in an unplanned outage that is expected to last until the end of May.

DIVERSE PROJECT PARTICIPANTS

The AFEC project rating will continue to reflect the creditworthiness of the underlying participants, which historically have exhibited satisfactory cash flow, modest leverage, and healthy cash balances. 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.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Public Power Rating Criteria (pub. 18 May 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=864007