

FITCH AFFIRMS AMERICAN MUNI POWER MELDAHL PROJECT BONDS AT 'A'; OUTLOOK STABLE

Fitch Ratings-New York-29 April 2015: Fitch Ratings affirms its 'A' rating assigned to the following American Municipal Power, Inc. (AMP) project revenue bonds:

--\$630.1 million outstanding Meldahl Hydroelectric Project revenue bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are secured and payable solely from gross receipts including payments made by the Meldahl participants under the power sales contract and other funds established pursuant to the indenture. AMP has covenanted under the indenture to set participant rates at a level sufficient to generate 1.1x debt service coverage on the Meldahl project bonds.

KEY RATING DRIVERS

EXPENSIVE BUT ENVIRONMENTALLY-FRIENDLY RESOURCE: The Meldahl Project (Meldahl) is currently being constructed on the Ohio River and will consist of a three unit hydroelectric generating facility aggregating 105 MW. Once complete, Meldahl is expected to provide power supply that is expensive (approximately \$90/MWh) over the near term but environmentally-friendly in a region dominated by fossil-fuel fired generation.

STRONG TAKE-OR-PAY CONTRACTS: Take-or-pay power sales contracts obligate the 48 participating municipally-owned electric systems to pay for their respective shares of all project costs, including debt service on the bonds, whether or not the project is completed, operating or operable. All of the participating systems are members of AMP.

STANDARD CONTRACT STEP-UP PROVISION: The power sales contracts include standard step-up provisions that require each participant to purchase up to 106% of its original allocation of the project output in the event that another participant defaults. This step up is sufficient to absorb the largest participant's share (Hamilton, OH; 51.4%) in the event of a default.

WEAKENED PARTICIPANT PERFORMANCE: Hamilton's financial performance was weak in fiscal 2014 reflecting reduced availability at the Greenup hydroelectric plant and higher purchased power expenses, but is expected to recover. Cash proceeds from the pending sale of a 48.6% interest in the Greenup plant to AMP by year-end 2015 should also allow Hamilton to reduce debt and boost cash reserves.

PROJECT NEARING COMPLETION: Construction of Meldahl, although further delayed as a result of recent high water conditions at the work site, is coming to a close with commercial operation expected by year-end 2015. Lower than anticipated bidding on several contracts resulted in lower project costs allowing for additional contingencies which have largely offset additional costs related to construction delays.

RATING SENSITIVITIES

HAMILTON FINANCIAL PROFILE: Continuation of the Stable Outlook is predicated on the city utilizing proceeds from the Greenup sale to retire electric system debt and restore debt service coverage and liquidity metrics to historical ranges.

CHANGES IN PARTICIPANT METRICS: The operating and financial metrics of the project remaining participants, many of which exhibited a deterioration in financial metrics during fiscals 2013-2014, will also be a key factor in future rating actions.

CREDIT PROFILE

AMP is a nonprofit wholesale power supplier and service provider that was organized in 1971 for the benefit of its members. As of April 28, 2015, AMP reported 132 members located throughout nine states (Delaware, Indiana, Ohio, Kentucky, Pennsylvania, Michigan, Virginia, Maryland and West Virginia). Together, the AMP members serve approximately 637,000 retail electric customers.

AMP and its members have dramatically shifted from purchasers of market power to owners of generating assets. AMP's ability to oversee a number of existing and new power resources and monitor project participants' credit standing are important credit considerations.

SEPARATE AND DISTINCT PROJECT

Meldahl is a run-of-the-river hydroelectric generating facility that is considered proven technology. The facility is currently being constructed on an existing dam operated by the Army Corps of Engineers on the Ohio River (36 miles upstream from Cincinnati, OH). The powerhouse will contain three bulb-type turbine-generating units and will entail the diversion of water from an existing dam to generate electricity. The project will have a generating capacity of approximately 105 MW.

The project will be owned by Meldahl LLC of which AMP is the sole member. Pursuant to the AMP-Hamilton agreements, AMP is financing and constructing the project and will sell Hamilton a 51.4% project share pursuant to the power sales contract. Hamilton also agreed to sell to AMP a 48.6% undivided ownership interest in its Greenup hydroelectric project upon Meldahl's commercial operation. Hamilton will operate both facilities, supported by its long-running experience operating its Greenup facility.

TAKE-OR-PAY POWER SALES CONTRACT

Each participant's obligation under the power sales contract (PSC) is on a take-or-pay basis. The strength of a take-or-pay agreement lies in the participant's requirement to make payment regardless of the unit operation and as long as the bonds remain outstanding.

The contract features a step-up provision that would require non-defaulting participants to purchase a pro-rata share of any defaulting participants' allocation up to 106% of their original allocation. This provision typically serves to mitigate participant default risk, particularly the weakest and smallest participants. In this case, the required step-up has been sized to cover a default of the largest entitlement of 51.43%, held by Hamilton.

Project Participant Credit Quality

Meldahl's financial position is heavily dependent on the creditworthiness of the underlying participants, which historically have exhibited satisfactory cash flow, modest leverage, and healthy cash balances. Fitch has reviewed financial metrics for the six largest participants (equivalent to 76% of Meldahl participation) and believes that the blended credit quality of the participants continues to support the rating on the bonds. None of the participants are rated by Fitch, with the exception of Paducah ('BBB'/Outlook Negative).

Hamilton's financial metrics deteriorated during fiscal 2014 primarily due to reduced availability at Greenup and the Prairie State Energy Campus during the first half of 2014. As a result, Fitch-calculated debt service coverage dropped to 0.8x in fiscal 2014 versus a historical average of about 1.3x as a 25% rise in purchased power costs was not offset by higher rates.

The city's sale of the 48.6% interest in Greenup will generate a \$139 million cash infusion by year-end 2015. Fitch expects that Hamilton will utilize about \$109 million of the proceeds to retire 85% of the city's outstanding electric revenue bonds with the remaining balance used to bolster Hamilton's cash reserves. Hamilton's failure to apply Greenup sale proceeds in this manner would further extend the utility's weakened financial profile thus placing downward rating pressure on the AMP Meldahl bonds.

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Applicable Criteria and Related Research:

- 'U.S. Public Power Peer Study' (June 13, 2014);
- 'U.S. Public Power Rating Criteria' (March 18, 2014);
- 'Revenue-Supported Rating Criteria' (June 16, 2014).

Applicable Criteria and Related Research:

U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Public Power Peer Study -- June 2014
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749789

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