

Rating Update: Moody's Affirms A3 Rating on American Municipal Power, Inc. Combined Hydro Project Revenue Bonds; Outlook Stable

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Rating Action Affects \$2.02 Billion Combined Hydro Revenue Bonds Outstanding

AMERICAN MUNICIPAL POWER, INC. - COMBINED HYDROELECTRIC PROJECT
Joint Power/Action Agency (JPA)
OH

NEW YORK, September 08, 2015 --Moody's Investors Service has affirmed the A3 rating on the outstanding \$2.02 billion American Municipal Power (AMP) Inc. Combined Hydroelectric Project Revenue Bonds (Series 2009 A,B,C and Series 2010 A,B,C Revenue Bonds). The bonds financed the construction of three run-of-the-river hydroelectric facilities along the Ohio River, Cannelton (88MW); Smithland (76MW); and Willow Island (44MW), with aggregate generating capacity of 208 MW, licensed to 2041. The projects are under construction and are expected to achieve commercial operation in 2015-16. The rating outlook is stable.

SUMMARY RATING RATIONALE

The major factors driving the A3 rating are: the A2 average weighted credit quality of the 79 municipal utility participants (utilities serve 1.2 million people in seven states) that have unconditional take-or-pay obligations to pay for an obligated share of the project debt service and O&M regardless of whether the hydroelectric facilities ever get constructed or operate satisfactorily. Also considered are the strong covenants including a 25% step-up provision and fully funded maximum annual debt service reserve; and AMP participants' acceptance of the long term economic and non-carbon value of the hydroelectricity. The hydroelectric resource will represent on average about 12% of participants power supply mix. The combined project is part of AMP's power resource diversity strategy to lessen the exposure of the participating municipal utilities to the regional wholesale energy markets. AMP has participated in the financing of a portion of the Prairie State coal-fired generation facility and the Fremont Energy Center natural gas fired units. AMP has also issued separately-secured revenue bonds for the Meldahl Hydroelectric Project rated A3).

The rating assigned also considers the expected environmental attributes of the hydro facility and the long-term economic value of the project, as well as American Municipal Power, Inc.'s (AMP) A1 Issuer Rating. AMP has been an effective power supply agency to its members.

The levelized cost of all-in energy and power was projected in May 2013 to be in the \$105/MWh range given the forecasted hydroelectric facility capacity factor. The energy production cost is expected to be very competitive. AMP is currently updating those projections as construction is wrapping up and commissioning is being finalized. According to projections, the all-in cost is flat at least through 2038 due to level debt service and minor operating expense changes. While the all-in cost is above today's regional energy market price, the energy and capacity is a long term source of carbon neutral electricity which makes up a small percentage of each municipal participant's power supply mix. The US Army Corps of Engineers Ohio River lock and dams are required for commercial river transportation which is key to the expectation for favorable capacity factors in the 50% range.

Also heavily weighted in the rating has been construction risk. Although the projects are near completion and construction risk has been reduced considerably, Moody's has maintained the current rating given the expectation the hydro facilities will go into operation over the next six-months.

Outlook

The rating outlook is stable given the hydro-facilities are near commercial operation along with the recognition of strong bond security provisions.

What Could Change the Rating UP:

- If remaining construction risks are fully mitigated

- The credit position of the participants improves
- The economics and value of the non-carbon hydroelectric resource is confirmed as construction risk moderates and a more certain all-in price is known.

What Could Change Rating DOWN:

- If project costs rise to a level that participants consider unsupportable and then challenge their take-or-pay power supply contracts with AMP.
- While Moody's believes the AMP take-or-pay contracts are very strong that can legally withstand challenges, the Municipal Joint Action Agency rating methodology heavily weights construction risk and the economics of the project financed because uneconomic projects are susceptible to political risk and significant pressure on the contracts that support the debt
- The rating could also be pressured if the average weighted credit quality of participants should erode.

STRENGTHS:

- * Attainment of above a 50% capacity factor seems reasonable given the water flow record and requirement for commercial navigation.
- * Hydroelectric generation will assist members to meet federal or state carbon standards
- * Take-or-pay contract with 79 municipalities with a weighted average credit quality of A2
- * AMP has an A1 issuer rating
- * No participant's take-or-pay obligation will represent a dominant share of the project nor will any participant's share of the project be a significant portion of the participant's power supply mix
- * FERC licensed the Hydroelectric projects to provide a 50 year source of carbon neutral energy and renewable energy under the state's portfolio standard
- * Competitive participant retail rates
- * AMP has a well-regarded fiscal monitoring system to provide an ongoing assessment of member's financial position

CHALLENGES

- * At \$9,625/KW capital cost of the project is expensive
- * Run-of-the-river hydroelectric system could be subjected to lesser water flow levels and availability of generation amounts
- * US Army Corps of Engineers regulates water levels through lock and dam systems which subjects water levels to administrative action
- * No assurance can be given that environmental regulation will remain the same
- * No specific statutory provision for take-or-pay contracts in Kentucky-- about 4% of the project.

RECENT DEVELOPMENTS:

- * AMP Issuer Rating was affirmed at A1 on June 18, 2015-see Moody's update report.
- * AMP expects the commercial operation date of the Cannelton Hydro Project (88MW) to be in 4th quarter 2015.
- * AMP expects the Smithland Hydro Project (76MW) to be in commercial operation by the 3rd quarter 2016.
- * The Willow Island Hydro Project (44MW) will divert water from the existing Willow Island Locks and Dam through bulb facilities The project is expected to be in commercial operation by the 4th quarter 2015.

DETAILED CREDIT RATIONALE

REVENUE GENERATING BASE.

AMP HYDRO STRATEGY IS A PART OF ITS FUEL DIVERSIFICATION PLAN

As part of the AMP diversification strategy to reduce exposure of its members to sometimes higher cost and volatile wholesale energy market, its 20-year strategic plan identified several run-of-the-river hydroelectric projects on the Ohio River as priority projects.

The projects have an estimated 50-year useful life and are being constructed adjacent to locks and dams which should have 100 year useful life as maintained by the US Army Corps of Engineers. The key factor is these facilities are required to be maintained to ensure river navigation for commerce and for flood control. The Ohio River is a naturally shallow river that was artificially deepened by a series of dams. The dams raise the water level and have turned the river largely into a series of reservoirs, eliminating shallow stretches allowing for commercial navigation.

The weighted average capacity factor of the three projects is projected to be 55% which is compatible with the record over the past 20 years of the Greenup and Belleville hydros, nearby on the Ohio River. The water levels are based on predicted rainfall in the Ohio River basin in the several state region.

The three projects are:

The Cannelton Hydro Project (88MW) is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project will divert water from the locks and dam through bulb turbines, which will have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel. The transmission line will be interconnected to the Midwest ISO market.

The Smithland Hydro Project (76MW) is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse will house three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kwh.

The Willow Island Hydro Project will divert water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2039. Average gross annual output is 279 million kwh. The powerhouse will house two horizontal 22 MW bulb type turbines and generating units.

AMP PLAYS KEY ROLE AS WHOELSALE POWER SUPPLIER

The non-coincident peak demand of AMP's 132 members (only 79 participate in the AMP Combined Hydro Project) was 3,358 MW, almost 50% higher than in 2005 primarily owing to new members joining the agency and partly due to load growth. AMP has supplied a part of that peak demand from generation that it owns with the balance coming from market purchases. AMP provides wholesale power services to utilities that serve customers in nine states.

Rate competitiveness has been maintained with AMP members averaging retail rates in the 15-20% range lower than region's investor-owned utilities. It is noted that several AMP participants retail rates are higher than the regional average.

AMP historically has been a wholesale power supplier using market purchases to resell to its participants. AMP has 24 Master Service Agreements in place with counterparties that allow for energy trading. AMP has undertaken a significant shift in its power resource strategy from mostly market purchases to moving towards generation ownership. The main driver has been to mitigate the volatility that municipal electric utilities have had to face with the restructured wholesale power markets. AMP had derived over 70% of its energy from purchased power which fell to 46% as Prairie State came online. AMP forecasts it will lower its reliance on purchased power to about 37% of its energy by the end of 2015. The base load power supply projects that AMP has participated in such as the hydro projects are projected to be competitive power sources and are secured by long-term take-or-pay contracts with AMP members.

FINANCIAL OPERATING AND POSITION

There are no financial operations for the combined hydro project yet since units are not yet commercial.

AMP has historically operated on a breakeven basis as a non-profit wholesale power supplier with the bulk of its energy resources from market purchases resold to its municipal utility participants. AMP's move to be an owner of

generation with operating risks has required a significant increase in operating liquidity. While AMP has an unregulated authority to set its rates to recover its costs, financial liquidity to manage changes in fuel prices and meet other immediate impacts has increased the need for liquidity. AMP has taken several strong steps to mitigate the risks in the forecast period including adding an increase in its bank line and a five-year tenor with no MAC clauses. AMP entered into an agreement with The Energy Authority (an entity owned by several public power utilities that has energy market trading; fuel purchase and risk management skills useful to mitigate operating risks).

Liquidity

AMP has negotiated a \$750 million revolving line of credit with 8 banks. The line was effective January 9, 2012 with a current maturity date of January 10, 2020. The LOC has an accordion feature to expand the line to \$1 billion. AMP also has authorization to issue \$450 million of commercial paper notes (CP). Previous projects were funded with CP.

DEBT AND OTHER LIABILITIES

All AMP Combined Hydro debt is fixed rate debt. AMP has about \$350 million outstanding on its line of credit. AMP did use the line to pay off the \$55,035,000 Series 2011 Meldahl Term Notes. See Moody's report on the issuer rating on AMP Inc. for more details on other AMP separately-secured debt obligations.

INTEREST RATE DERIVATIVES

None

PENSION AND OPEB

No material credit risk related to the AMP Combined Hydro Project

MANAGEMENT AND GOVERNANCE

AMP was established pursuant to state statute (Ohio Revised Code Chapter 1702) as a non-profit corporation in 1971 to provide its members, which are municipal electric utilities, to provide for a reliable and competitive power supply. AMP is governed by a 20-member Board of Trustees made up of officials from 19 member municipalities and DEMEC, each of which appoints an official to represent it. AMP operates like a joint powers agency and most of its members have home rule charters which permit retail rates to be set by the local governing boards with no external regulation. The Ohio members have their authorization to enter into power sales contracts derived from the state constitution. 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.

Key STATISTICS:

Project Description: AMP constructing three hydros with combined 208 MW on the Ohio River.

Debt Outstanding, 6/1/2015: \$2,019,158,529

Joint Action Agency-Take-or-Pay Methodology Scorecard Factors: Issue Rating:

As indicated below, the final scorecard indicated rating for AMP-Combined Hydro is A2, which is one notch higher than the current rating of A3. The main reasons for the difference is the project remains under construction and there is participant concentration risk in Ohio. The grid is a reference tool that can be used to approximate credit profiles in the joint action agency sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Municipal Joint Action Agency Methodology for more information about the limitations inherent to grids.

Factor 1-Participant Credit Quality and Cost Recovery Framework: (45%) A3

Factor 2- Asset Quality : (15.0%) Baa (Baseline)

Factor 3-Cost competitiveness: (15%): Ba (Baseline)

Financial Strength

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

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

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

Grid Indicated Rating: A3

Notching Uplift - Positive 0.5 Notch up for AMP cost recovery and positive 1.0 notch up for participant diversity offset by a 1.0 notch down for construction risk

Final Scorecard Indicated Rating: A2

OBLIGOR PROFILE

AMP operates like a joint powers agency and most of its members have home rule charters which permit retail rates to be set by the local governing boards with no external regulation. The Combined Hydro Project is a generation project secured by take-or-pay contracts with 79 member participants.

BOND SECURITY

Under the Master Trust Indenture, AMP pledges its net revenues, derived from take-or-pay power sales contracts with municipal electric utility participants, payable monthly regardless of whether the project is completed, operating or operable. The take-or-pay contracts have a 25% step-up provision. The master indenture includes a 1.10x rate covenant; 1.10x additional bonds test after commercial service; and a fully funded maximum annual debt service reserve. The participant payments are payable as an O&M expense of their respective electric systems.

Legal opinions have been issued that the take-or-pay contracts are valid and enforceable. On December 7, 2007, the Franklin County, Ohio Court of Common Pleas issued a non-appealable order validating the power sales contract relating to another hydroelectric project between AMP and the Ohio participants in that project, including the take-or-pay and step-up provisions similar to the Meldahl provisions. Several of the participants are located in Michigan, Kentucky and Virginia. Michigan and Virginia have passed specific legislation authorizing take-or-pay contracts, including step-up provisions with out-of-state corporations. Kentucky does not have specific statutory authority for electric plant boards to enter into long-term take-or-pay contracts but the Kentucky State Counsel has opined that KRS Chapter 96 provides sufficient authority for such contracts. There are two Kentucky participants (Princeton and Paducah) that represent 6% of the project. If there is a payment default of any participant, AMP has the power to suspend delivery, which in Moody's opinion creates a significant incentive for the municipal participant to pay given the essential nature of the service.

Should such a default occur, AMP would first offer the power to other project participants, other AMP members, other entities that are not AMP members (to the extent that doing so won't impact the tax advantaged status of AMP and/or its bonds) and then exercise the 25% step-up provision that requires participants to be legally responsible for any defaulted costs for up to 25% of their original entitlement.

Payment compliance is aided by a credit monitoring program that AMP manages which produces early warning signs should a member be in fiscal distress. This includes monthly evaluations of participant credit by monitoring a credit scorecard that includes financial metrics.

DEBT STATEMENT AND CAPITAL IMPROVEMENT PLAN

AMP has two series of bonds outstanding for the Combined Hydro Project including \$640,168,529 of AMP Combined Hydroelectric Project Series 2009 A,B,C,D; and \$1,378,990,000 AMP Combined Hydroelectric Project Series 2010 A, B, C. No additional borrowing is expected for project.

USE OF PROCEEDS:

Not applicable

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RATING METHODOLOGY

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 for a copy of this methodology.

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