

Rating Update: Moody's affirms A3 American Municipal Power, Inc. Meldahl Hydro Project Revenue Bonds; outlook stable

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Approximately \$685 million of debt securities affected

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

NEW YORK, June 18, 2015 --Moody's Investors Service has affirmed the A3 rating on the outstanding \$685,100,000 Meldahl Hydro Project (Meldahl) Series 2010 A to E Revenue Bonds. The bonds financed the construction of the 105 MW hydro-electric facility on the Ohio River. The rating outlook is stable.

SUMMARY RATING RATIONALE

The A3 rating considers the strong bond security which includes the unconditional take-or-pay obligation of the 48 participants in the project to pay O&M and debt service on the bonds. Of note is the 51% obligation share from the City of Hamilton, Ohio, whose electric revenue bonds are rated A3 with a stable outlook, which bears significant weight in the rating. The obligation of the 48 participants is absolute and unconditional regardless whether the project is constructed, completed, operating or operable. Interest on the debt during construction is capitalized until the project is commercial. The project has a fully funded maximum annual debt service reserve.

While construction has advanced and we understand that the first of the Project's three units will be in service in the third quarter of 2015 and the second and third units are expected to be in service the fourth quarter of 2015, our maintenance of an A3 rating with a stable outlook is recognition that the project still needs to be completed and related costs need to be incorporated into participant utility rates. Moreover, the Meldahl project is one of four AMP hydro projects under construction and is expected to be completed in 2015, commissioning risk for the project has increased. While Meldahl's costs remain close to budget, there have been project delays related to flooding along with permit related delays at the project. AMP Inc. has used its line of credit to manage the additional capitalized interest.

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 who has been an effective power supply agency to its members.

The levelized cost of energy and power from Meldahl is projected to be in the \$80/MWh range given the forecasted capacity factor. 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. We understand that the Meldahl Project has the highest projected capacity factor of any of the new hydroelectric projects AMP is undertaking.

The Meldahl 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 revenue bonds (Combined Hydroelectric Project rated A3) to finance three new hydroelectric facilities along the Ohio River Cannelton (88MW); Smithland (76MW); and Willow Island (44MW).

The Meldahl Project will be operated by Hamilton (electric revenue rated A3), who has a 51.4% ownership interest in the project and share of the output. A management committee has been established with AMP and Hamilton representation. The AMP-Hamilton agreement also provides that AMP will acquire 48.6% (34MW) of Hamilton-owned Greenup hydro facility. This transaction is expected to take place 60 days after the Meldahl project is commercial. AMP expects to coordinate the production capabilities of the six hydro facilities (the four under

construction) and two existing units Greenup and AMP member owned Belleville.

OUTLOOK

The rating outlook is stable given the Meldahl Project is near commercial operation along with the recognition of strong bond security provisions.

What Could Change the Rating UP:

The rating could be upgraded if Hamilton's credit position improves post construction when Meldahl is in commercial operation.

What Could Change Rating DOWN:

The rating could be downgraded if the project costs rose further to a level that participants considered unsupported and they challenged their power supply contracts with AMP; or the project got significantly delayed, or if credit quality of the participants eroded.

STRENGTHS:

*Meldahl will be coordinated by AMP with five other nearby hydro projects amounting to over 400 MW of generation

*FERC-licensed Meldahl hydroelectric project has unique advantages including providing a 50-year renewable energy resource that is non-carbon based

*Take-or-pay contracts with 48 municipalities with a weighted average credit quality of A3. Hamilton, which represents 51% of the obligation has a general obligation rating of Aa3 and its electric utility revenue bonds are rated A3, stable outlook. AMP has an A1 Issuer Rating based on its effective role as power supplier to a diverse group of municipal utilities located in a multi-state region

*Power supply contract extensions by members and the signing on of various new members indicates strong support for AMP's role as a regional power supplier

*Meldahl hydro generation will be a small percentage of the overall power supply of the participants which limits the impact of any additional cost increases. However, the financial impact on Hamilton is larger since Hamilton's obligation is in the 30% range.

*Meldahl Project has recorded water flow that would indicate THE hydroelectric facility would have a 55% or greater capacity factor

*Competitive member retail rates. Hamilton's rates are below the neighboring major investor-owned utility

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

CHALLENGES

*High capital cost at \$7,000/KW

*Construction risk remains until commercial date has been met

*US Army Corps of Engineers regulates water levels through lock and dam system which subjects water levels to administrative action

*No assurances that environmental regulation will remain the same

RECENT DEVELOPMENTS:

*Hamilton, Ohio electric revenue bond rating was affirmed as A3, stable outlook on June 18, 2015.

* AMP Issuer Rating was affirmed at A1 on June 18, 2015.

DETAILED CREDIT RATIONALE

REVENUE GENERATING BASE.

AMP participants subscribed for a share of the Meldahl project whose debt is secured by their take-or-pay obligation. Each project is separately secured and there is no cross default between projects. The municipal electric utility subscription to a generation project is done after a comprehensive needs analysis is performed to determine forecasted demand and the resources that are required that would achieve the lowest cost. Assumptions incorporate energy efficiency programs; forecasted regional power prices; and expected greenhouse gas regulation and renewable energy requirements. AMP utilizes loans to fund on an interim basis the cost of construction of a new generation unit .

The non-coincident peak demand of AMP's 132 members 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 over 637,000 customers in the nine states.

Rate competitiveness has been maintained with AMP members averaging retail rates in the 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 are projected to be competitive power sources and are secured by long-term take-or-pay contracts with AMP members.

FINANCIAL OPERATING AND POSITION

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 in importance. AMP has taken several strong steps to mitigate the risks in the forecast period including adding increased bank lines 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).

There are no operating results for AMP Meldahl since it is not yet in commercial operation and interest in capitalized. All AMP members are in compliance with their take-or-pay contracts.

Liquidity

AMP has negotiated a \$750 million revolving line of credit with 10 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 and rated P-1 by Moody's.

DEBT AND OTHER LIABILITIES

All AMP Meldahl debt is fixed rate debt. AMP has about \$350 million outstanding on its line of credit related to all generation projects. AMP did use the line to pay off the \$55,035,000 Series 2011 Meldahl Term Notes.

INTEREST RATE DERIVATIVES

None

PENSION AND OPEB

No material credit risk related to the Meldahl 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: 105 MW hydroelectric facility on Ohio River

Commercial Date: Fourth Quarter 2015

Hamilton as % AMP Inc. Meldahl Project: 51.4%

Debt Outstanding, 6/1/2015: \$685,100,000

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

As indicated below, the grid indicated rating for AMP-Meldahl is A3, in line with the existing issuer rating. 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%): Baa (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

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

Final Scorecard Indicated Rating: A3

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 Meldahl Project is a generation project secured by take-or-pay contracts with 48 member participants.

BOND SECURITY

Under the Master Trust Indenture, AMP pledges its net revenues, derived from long-term project take-or-pay power sales contract with the Meldahl Project's 48 municipal participants, payable monthly regardless of whether the project is completed, operating, or operable. The contracts are payable from the revenues of municipal utility enterprises, the funds of which are accounted for separately from city general government funds. Member payments are payable as O&M expenses of their respective electric systems.

The take-or-pay contracts have a 106% step-up provision. The master trust indenture includes a 1.10x rate covenant, 1.10x additional bonds test after commercial operation, and a fully funded maximum annual debt service reserve. There is also a six-month BABs and CREBs interest rate subsidy reserve. Should the federal government reduce the interest rate subsidy on BABs, AMP participants are required to pay their allocated share of cost increase.

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 exactly 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 (which is why step-up is sized at 106%).

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 106% step-up provision that requires non-defaulting participants to be legally responsible for any defaulted costs for up to 106% 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

Series 2010 A,B,C,D and E are only bonds outstanding. No CIP related for Meldahl Hydroelectric Project

USE OF PROCEEDS

Not applicable

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PRINCIPAL 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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