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**Rating Update: Moody's Investors Service has affirmed the A1 Issuer Rating on the American Municipal Power Inc. (AMP). The rating outlook is stable.**

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Global Credit Research - 18 Jun 2015

### **AMP Has \$5.6 Billion Revenue Bonds Outstanding**

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

NEW YORK, June 18, 2015 --Moody's Investors Service has affirmed the A1 Issuer Rating on the American Municipal Power Inc. (AMP). The rating outlook is stable.

### SUMMARY RATINGS RATIONALE

Moody's Investors Service has affirmed the A1 issuer rating on the American Municipal Power, Inc. (AMP). The A1 Issuer Rating considers the ability to recover its costs on an unregulated basis; a well-established track record of timely cost recovery; the benefits of diversification given the lack of any customer concentration and AMP's broad geographic reach; sound financial liquidity; strong power supply contracts; and management's focus on providing a diverse, reliable and competitive power supply portfolio for members. Construction risk is largely behind AMP given the near completion of AMP's generation projects.

The Issuer Rating takes into consideration the A3 average weighted credit quality of AMP members across 132 unregulated municipal electric utilities. The broad service area economy of the members in the nine states has rebounded slowly since the last recession including slower retail electricity demand growth. Overall 0.5% to 1% load growth is projected over next several years. Energy efficiency programs have also contributed to lowering demand volume. Health care and manufacturing sectors in the region, in particular in Ohio, have experienced positive trends, unemployment is near the US average in each of the states.

The issuer rating factors in 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.

To better diversify the fuel mix and to obtain generation ownership, in the past few years, AMP has financed ownership interest in new coal and natural gas-fired generation facilities and recently invested in the development of four hydro-electric projects on the Ohio River. The hydro projects have experienced construction delays but are expected to be operational over the next several quarters. While the all-in cost of these units is above average, their non-carbon long term asset value are positive considerations. AMP revenue bonds financed the projects on a take-or-pay basis with each participant electing to subscribe for a share of the output from the project. We believe the legal security for the AMP revenue bonds is strong.

Combined, the outstanding AMP project debt amounted to \$5.6 billion (including outstanding short-term obligations) as of June 1, 2015. AMP has a line of credit secured by member commitments. As of June 1, 2015, AMP had \$400 million available on the line of credit; which also can be expanded for an additional \$250 million availability.

### OUTLOOK

The rating outlook is stable considering AMP's continued sound management of its power supply plan; the relative stability of the credit position of AMP's members and AMP's strong legal cost recovery provisions and ongoing oversight role which increases the enforceability of its contracts.

### 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 operate successfully for an extended period.

#### 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 challenge to AMP's legal structure or its strong cost recovery provisions.

#### STRENGTHS:

- \*Average weighted credit quality of the 132 AMP member cities is A3 spread over a large geographic area
- \*Strong legal cost recovery provisions with most municipal electric utilities having unregulated rate setting
- \*Power supply all-requirement contracts, many of which are long-term, with 107 members (expiration varies amongst members ) provides strong long-term support for AMP's role as a regional power supplier. Separate take-or-pay contracts for individual generation projects are long-term, expiring well beyond final debt maturity.
- \*AMP and AMP municipal utility members are exempt from provisions of the Ohio retail choice law and the state's renewable energy standard. Once the new AMP hydro units are commercial, AMP and its members will derive about 15-20% of the power supply from renewable 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 their 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 but Prairie State coal-fired generation meets all current EPA requirements and is expected to meet the proposed unit specific EPA Clean Energy Program rule.
- \*Some individual officials of a few participants of the AMP Prairie State project have questioned the higher than projected cost per Mwh of Prairie State. Requests for the Ohio State Attorney General investigation has not resulted in any review of the power sales contracts entered into by those participants prior to project construction.
- \*Regional energy prices have fallen owing to the decline in natural gas prices. To the extent natural gas prices remain low and drive the regional energy price, potential pressure for AMP's higher cost coal resources exist.
- \*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 help to mitigate this factor.

#### RECENT DEVELOPMENTS

- \*AMP extended its line of credit to 2020.
- \*AMP average all requirements levelized wholesale rate to its all-requirements members was \$72/Mwh in 2014 and is projected to remain in that range through 2017.
- \*AMP hydro projects are behind the original schedule but construction risk has been significantly reduced by contractor settlements. The delays were initially due to delay in the federal 408 permit; from weather conditions affecting construction on Ohio River and from contractor issues. At Smithland Hydro the contractor was replaced mid-project.. Projects commercial dates include: Cannelton Project: first and second Units in third quarter 2015 and third Unit in fourth quarter 2015; Smithland Project: first Unit in second quarter 2016 and second and third Units in third quarter 2016; Willow Island Project: first Unit in third quarter 2015 and second Unit in fourth quarter 2015; and Meldahl Project: first Unit in third quarter 2015 and second and third Units fourth quarter 2015. One challenge for AMP is managing at the same time the commissioning of four different and large units now expected to come on line in late 2015. The Meldahl hydro project is ahead of the others in the commissioning of the units.
- \*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.

Since commercial start dates, both units had experienced performance issues as is typical of large coal-fired generation units in the first year of shake-down operation.

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. AMP also refunded a major portion of debt in 2015 which improved the cost structure. Prairie State remains a key asset in AMP's power mix but on average represents about 15% of a participant's power supply mix. Prairie State is now operating above the 70% capacity factor level and management expects the plant to achieve 80% capacity factor in 2015-2017.

\*New peaking resources (fast ramp, behind the meter peakers) are projected to be needed by 2017 as one approach to meeting member peak requirements. AMP member resource plan forecasts over 1,100 MWs of new peaking resources are needed.

## DETAILED RATING RATIONALE

### REVENUE GENERATING BASE

#### Strong Cost Recovery Protections

AMP's municipal utility members purchase non-project capacity and energy from AMP pursuant to take-and-pay contracts. There are 107 all-requirements participants. The contracts are not secured by the full faith and credit of the respective cities. 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.

AMP members by their choice also participate on a take-or-pay basis in AMP-sponsored projects including AMP's share of the financing of the Prairie State Project, the 1600 MW coal-fired generation plant; Freemont Energy Center the two-unit 675 MW natural gas fired facility and AMP four new hydro facilities being built along the Ohio River. AMP members who chose to participate in these projects have long-term take-or-pay contracts and are obligated to pay for their allocated share of the O&M and debt service costs.

If there is a payment default, AMP has the ability to suspend delivery, which in Moody's opinion creates a significant incentive to pay given the essential nature of the electric service. AMP has never experienced a payment default by a member.

Payment compliance is aided by AMP's credit monitoring program which produces early warning reports should a city be in fiscal distress. The Ohio state auditor has fiscal emergency powers to place a city on Fiscal Watch or Emergency to correct a fiscal stress problem. Moody's views this structured process intended to catch any potential non-compliance with the contracts is a positive rating consideration. Local governments also cannot be forced into bankruptcy. For Ohio for example, only the Ohio tax commissioner can recommend that an Ohio local government can file for Chapter 9 bankruptcy. In a Chapter 9 bankruptcy, the fiscal affairs of a local government are reorganized and debts can be adjusted but not reduced. Although there has not been much experience with Chapter 9 bankruptcies for municipal entities. AMP is not authorized to file for bankruptcy and cannot be forced into bankruptcy.

Three AMP member utilities are under Fiscal Emergency (Niles, Galion and Edgerton, Ohio). We understand that each remain current on their payments to AMP.

The non-coincident peak demand of AMP's 132 members was 3,358 MW registered in 2014. AMP electric revenues topped \$1 billion for the first time in 2014. AMP provides wholesale power services municipal utilities that serve over 637,000 customers in the nine states.

### FINANCIAL OPERATIONS AND POSITION

#### AMP Financial Position: AMP's Generation Ownership Changes Profile to More Operating Risks

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 with strong counterparties 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).

AMP operating sales revenue has grown largely due to the addition of new all-requirement municipal electric utilities to the AMP organization and wholesale power rate increases to start debt repayment on the financed generation projects.

AMP ended FY 2014 with revenues in excess of \$1 billion. AMP reports its results on a quarterly basis which are included on its web site. AMP maintained its strong external liquidity facility while improving somewhat internal liquidity with a new retained earnings policy. Examination of the consolidated accounts does not describe the financial position of each individual fund related to its respective project. Each project fund has sufficient liquidity, bond covenants have been met and are starting to reflect operating results.

#### Liquidity

AMP has negotiated a \$750 million revolving line of credit with 10 banks with ratings ranging from A3 to Aa2. The line was effective January 9, 2012 with a maturity date 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 Structure

##### AMP Has Project Based Debt Structure

AMP participants subscribe for a share of the generation projects 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 completed 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.

#### Debt-Related Derivatives:

None

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

As indicated below, the grid indicated rating for AMP is A1, 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-Cost Recovery Framework: (25%) A3

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%): Aa

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 1.5

Notch up 0.5 for AMP cost recovery and notch up 1.0 for participant diversity

Final Scorecard Indicated Rating: A1

#### Capital Program: New Owned Peaker Generation to Diversify Energy Mix

AMP's capital plan concentrates on the building of new power plants to replace wholesale power market purchases and diversify the power supply mix of its participants. Separate power supply plans are conducted for each participant (126 of the 132) focusing on the optimal plan.

The next project AMP expects to finance in late 2015 is the acquisition from Hamilton of the 49% ownership interest in the Greenup hydro project. The financing is expected to be done 60 days after the Meldahl hydro project is commercial. Future AMP financing may include the financing of new peaking resources in 2017. No decisions have been made on which options AMP will take on behalf of members.

#### Management and Governance

AMP was established pursuant state statute (Ohio Revised Code Chapter 1702) as a non-profit corporation in 1971 to provide its members, which are municipal electric utilities, 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. AMP operates like a joint powers agency and most of its members have home rule powers which permit retail rates to be set by the local governing boards with no external regulation. 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. The Ohio members have their authorization to enter into power sales contracts derived from the state constitution. The AMP members from the other states have specific state statutes that govern their authority and participation in take-or-pay contract obligations.

#### Pension and OPED:

Not a material credit factor for AMP.

#### OBLIGOR PROFILE

AMP serves 132 municipal electric utilities in a seven state area providing wholesale power supply and services.

#### LEGAL SECURITY

Most of the AMP power supply contracts are all-requirement supply contracts although some have partial requirements. The power contracts are not secured by the full faith and credit of the respective cities. But the unregulated ability of AMP to pass power supply costs through to its members, and the municipal utilities unregulated ability to recover these costs from their customers is a strong credit factor.

AMP members by their choice also participate on a take-or-pay basis in AMP-sponsored projects including AMP's share of the financing of the Prairie State Project, the 1600 MW coal-fired generation plant. AMP members who chose to participate in that project for example have take-or-pay contracts and are obligated to pay for their allocated share of the O&M and debt service costs.

The take-and-pay and take-or-pay contracts are payable from municipal electric utility enterprises, the funds of which are accounted for separately from municipal general government funds.

We understand that AMP has a fiscal monitoring program which produces early warning reports should a city be in fiscal distress. Under that program, each member is evaluated by AMP on a financial health scorecard on an annual basis, upon release of the member's annual audit.

The Ohio state auditor has fiscal emergency powers to place a city on Fiscal Watch or Emergency to correct a fiscal stress problem. Moody's believes this structured process intended to catch any potential non-compliance with the contracts is a positive consideration. Local governments also cannot be forced into bankruptcy. Only the Ohio tax commissioner can recommend that an Ohio local government can file for Chapter 9 bankruptcy. In Chapter 9 bankruptcy, the fiscal affairs of the local government are reorganized and debts can be adjusted but not reduced. AMP is not authorized to file for bankruptcy and cannot be forced into bankruptcy.

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

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