

Research

Summary:

American Municipal Power Inc., Ohio; Wholesale Electric

Primary Credit Analyst:

Jeffrey M Panger, New York (1) 212-438-2076; jeff.panger@standardandpoors.com

Secondary Contact:

Theodore A Chapman, Dallas (1) 214-871-1401; theodore.chapman@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

American Municipal Power Inc., Ohio; Wholesale Electric

Credit Profile

American Municipal Power Inc. (AMP Fremont Energy Center (AFEC) Proj)

Long Term Rating

A/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A' rating on American Municipal Power Inc. (AMP), Ohio's Fremont Energy Center (AFEC) project revenue bonds. The outlook is stable.

Revenue associated with a power sales contract between AMP and 87 of its members secures the bonds.

Several factors, which we view as positive, support the rating, including AMP's:

- Take-or-pay contract with a large group of participants that will provide at least 1.1x debt service coverage (DSC); and
- Low natural gas prices, which we expect will continue in the near term and should continue to make the Fremont project an attractive source of power supply for participating members.

We believe other factors limit upward rating potential. These include AMP's:

- Adequate, not strong, participant credit metrics;
- Limited rate flexibility. The contract's terms limit rates to an amount that will provide 1.1x DSC. The participants' retail rates, which are generally above state averages also limit rate flexibility; and
- Risk that a prolonged outage at the Fremont plant could erode participant credit strength if the cost of an alternative power source is much higher.

AMP is a generation and transmission cooperative that provides electricity to 132 municipal electric utility systems in Ohio, Pennsylvania, Michigan, Kentucky, Virginia, Indiana, Maryland, and West Virginia; and to a joint-action agency in Delaware that provides power to nine municipalities. In the past several years, the cooperative has diversified its power portfolio. At the end of 2010, AMP and its members owned 1,114 megawatts (MW) of capacity compared to peak power requirements of 3,512 MW. In mid-2011, it purchased the 675 MW combined cycle unit in Fremont, which began commercial operation in January 2012. Subsequently, AMP added 368 MW of coal-fired power associated with the Prairie State Energy Campus. In 2015 and 2016, the cooperative will add about 300 MW of hydroelectric power. AMP expects that its 2016 fuel mix will be about 28% from owned coal-fired units, 16% from natural gas, and 15% hydroelectric, 3% from landfill gas, and 2% from wind and solar. We understand the cooperative will continue to purchase power for the remaining energy requirements.

Outlook

The stable outlook reflects Standard & Poor's expectation that the plant's beneficial economics and the take-or-pay structure of the power sales contract, which includes a 25% step-up provision, will likely assure at least 1.1x DSC. AMP's engaging of a well-regarded firm to operate and maintain the plant and its engaging of a well-regarded energy procurement group to manage fuel further support the outlook. We do not expect to raise or lowering the ratings over the next two years.

Upside scenario

Upward rating pressure would occur if coverage levels significantly stayed above 1.1x for an extended period.

Downside scenario

Similarly, we could lower the rating if DSC stayed below 1.1x for a prolonged period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009
- USPF Criteria: Wholesale Utilities, May 24, 2005
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria Update: Joint-Support Criteria Refined, Feb. 3, 2006
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2015 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.