STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:

American Municipal Power Inc., Ohio; Wholesale Electric

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Summary:

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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.