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Ratings

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Summary:

American Municipal Power Inc.; Wholesale Electric

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Summary:

American Municipal Power Inc.; Wholesale Electric

Credit Profile		
US$67.0 mil prairie state energy campus proj rev bnds ser 2017A due 02/15/2043		
Long Term Rating	A/Stable	New
American Mun Pwr Inc. (Prairie St Energy Campus Proj)		
Long Term Rating	A/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'A' rating to American Municipal Power Inc.'s (AMP) Prairie State Energy Campus (PSEC) project revenue bonds, refunding series 2017A. At the same time, S&P Global Ratings affirmed its 'A' rating on parity debt. The outlook is stable.

The project has approximately $1.6 billion of debt outstanding.

The rating reflects the following credit characteristics:

- Take-or-pay power sales contracts secure these bonds, and AMP passes any increased costs on to participating members.
- We believe that, because this project represents relatively small portions of the diversified power supply portfolios of these participants, the impact on their retail rates is manageable.
- Despite the rise in the all-in cost of power, we believe that the PSEC project economics remain favorable. The project has strong project economics, influenced by a mine-mouth fuel supply that officials expect will reduce the project's operating costs. Furthermore, AMP's projection of all-in power costs remains competitive with its projection of market rates.

Bond proceeds will refund parity obligations outstanding.

As a project-based wholesale joint action agency, and under terms of participation agreements with members, AMP provides power based on each member's elected level of participation per project. The company operates several projects on members' behalf. The projects are not cross-collateralized, and separate billing and accounts exist for each project. AMP has 135 utility members (although not all are participating in PSEC), serving about 650,000 customers in Ohio, West Virginia, Pennsylvania, Michigan, Kentucky, Virginia, Indiana, Maryland and Delaware.

In our opinion, the utility's sophisticated management team and efforts to assist and monitor members' financial

operations is a credit positive. Nevertheless, PSEC participants overlap significantly with those in other projects. While these projects are separately secured, they are ultimately obligations of most of the same members. The rating assumes that participating members will exercise their rate-raising authority and maintain adequate coverage of all fixed costs.

The parity debt financed the costs associated with AMP's 23.26% share of the PSEC project, a two unit, 1,582 megawatt mine-mouth, supercritical coal-fired plant. A pledge of net revenue under the take-or-pay power sales contracts between the company and the 68 municipalities that participate in the PSEC project secures the bonds. The pledge comes mainly from payments that constitute operating expenses of the participating members' retail electric systems. Therefore, the participants' credit quality is a key factor in the rating. We have assessed the credit quality of these members to be, on balance, medium-investment-grade.

The depth and diversity of the entire participant base enables us to decouple the rating from a weak-link analysis. However, since the participating members have agreed to a step-up not to exceed 25% of their initial investment, in the event of a default, the credit strength of the 10 largest participants significantly support the rating. Their share of the initial investment covers about 60% of the annual debt service, and with the step-up, would cover about 75% of debt service.

AMP serves its member needs through a mix of owned generation and power purchases, the latter of which is expected to account for 43% of energy needs in 2018. Owned generation is diverse (both in terms of shafts and fuel type, and include hydro resources (16% of energy needs), gas (14%), and coal-fired (22%) generation. In our view, the diversity of resources is a credit positive, and stands out among utilities in the coal dependent upper-Midwest.

We expect PSEC to account for 16% of AMP members' energy needs in 2018. The project is one of the youngest coal plants in the U.S. The state-of-the-art facility has a full suite of environmental controls, and should be relatively well-positioned to withstand future carbon based regulations. Although strong project economics position PSEC to absorb modest increases in environmental costs from carbon mandates, the project (and by extension AMP and its members) face the risk that these mandates might prove more onerous than expected. However, we expect PSEC to maintain a competitive cost structure because costs pressures would likely affect most coal-dependent utilities throughout the region. The risks associated with regulation are uncertain, and we have not factored them fully into our ratings on AMP. As a mine-mouth facility, variable operating costs are relatively low, making it economical to dispatch despite currently low gas and electricity prices.

Our view of the membership base is mixed. With 135 members covering a broad nine-state footprint (though the majority are in Ohio) and serving 650,000 retail customers, we view AMP's membership base as deep and diverse. In our view, this helps offset some of the weaknesses of individual members.

Sixty-eight AMP members participate in the project, and are similarly deep and diverse. Demand growth has been generally flat. Members are generally small-to-midsize municipalities, and their retail bases exhibit above-average industrial and customer concentration, which expose those members to demand volatility related to economic cyclicality. Finally, although unemployment relative to that of the nation have improved over the past decade, income levels still lag the U.S. average -- significantly, in a number of cases.

PSEC's all-in cost of power is slightly lower than AMP's all-in power costs across its entire portfolio; we expect relative improvement as power costs increase for the other projects. As a mine-mouth coal unit, variable costs are fairly stable, and so we do not anticipate the cost of power from the PSEC project to increase over the next five years.

According the U.S. Department of Energy's Energy Information Administration, PSEC participant member retail rates -- which are highly influenced by their respective mix of AMP projects and power purchases -- generally range within 10% of the state average. A notable exception to this is Cleveland Public Power, which has a 6.7% share in the project and whose retail rates are more than 25% above the state average in 2015, the most recent year of available comparative information. Cleveland Public Power faces direct competition (with Cleveland Electric and Illuminating Co.) for retail customers, which is highly unusual for public power utilities, which generally enjoy exclusive service territories.

AMP's financial metrics are fairly typical for a project based joint action agency. Fixed cost coverage has consistently been in the 1.1x range since project inception. Unrestricted cash and investment at the project level are adequate, at 87 days of operating expenses in 2016, and $239 million (as of Oct. 1, 2017) in undrawn capacity under an agency-level $600 million committed syndicated credit line that expires in 2022 enhances liquidity.

As a relatively recently commissioned project, debt represents 100% of total capitalization. We anticipate that this will remain the case for the medium term until a significant amount of debt amortizes. We expect AMP's share of capital spending on PSEC to be a manageable $34 million over the next five years, and we don't expect debt-financing.

Outlook

The stable outlook reflects our view of the depth and diversity of AMP's membership base. We believe that this, coupled with rate-setting authority and step-up provisions, should provide the utility with adequate support to meet financial obligations. We do not expect to raise or lower the rating during the two-year outlook horizon.

Upside scenario

Given our view of the membership base's credit quality, and our expectation that rates will produce just adequate fixed cost coverage metrics, we do not expect the rating the rating in the next two years.

Downside scenario

While we do not expect to lower the rating in that time, downward rating pressure could result if environmental regulations pose an undue burden on project participants, if the project suffers weakened availability, or should coverage metrics fail to meet covenanted levels.

Ratings Detail (As Of October 17, 2017)		
American Mun Pwr Inc. (Prairie St Energy Campus Proj)		
Long Term Rating	A/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of October 17, 2017) (cont.)		
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
American Mun Pwr Inc. (Prairie St Energy Campus Proj) (BHAC) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.