

*Interest on the Series 2010E Bonds will be includable in the gross income of the owners thereof for federal income tax purposes. In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, interest on the Series 2010E Bonds will be exempt from certain Ohio taxes. See “TAX MATTERS” herein.*

**\$355,035,000**

**AMERICAN MUNICIPAL POWER, INC.**

**MELDAHL HYDROELECTRIC PROJECT REVENUE BONDS**

**SERIES 2010E (FEDERALLY TAXABLE – ISSUER SUBSIDY – BUILD AMERICA BONDS)**

**DATED: DATE OF ISSUANCE**

**PRICE: 100%**

**DUE: FEBRUARY 15, 2050**

**CUSIP No.<sup>(1)</sup> 02765UDZ4**

The Series 2010E Bonds will be issued by American Municipal Power, Inc. (“AMP”) in book-entry only form through The Depository Trust Company, which will act as securities depository. Purchases of the Series 2010E Bonds will be made in book-entry form through DTC participants in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Payments of principal and interest on the Series 2010E Bonds will be made to beneficial owners by DTC through its participants.

Commencing on the Date of Issuance, the Series 2010E Bonds will accrue interest at a Short-Term Rate determined in accordance with the procedures set forth herein. While the Series 2010E Bonds bear interest at a Short-Term Rate, interest shall be payable on the first Business Day of each month, commencing February 1, 2011. The initial Short-Term Rate for the initial Short-Term Rate Period will be 3.25375% per annum, based on a three-month LIBOR rate of 0.30375% per annum plus the Fixed Spread of 2.95%.

The Series 2010E Bonds shall be subject to optional tender for purchase by the holders thereof and conversion to a Long-Term Rate on and after May 23, 2011, as described herein. As set forth herein, however, AMP is not obligated to pay the purchase price of any Series 2010E Bonds tendered for purchase by the holders thereof. The purchase price of the Series 2010E Bonds tendered for purchase will be payable solely from amounts available from the proceeds of the remarketing thereof and certain additional funds, as described herein.

The Series 2010E Bonds are subject to redemption prior to maturity as described herein.

The Series 2010E Bonds are being issued and will be secured under the Master Trust Indenture, dated as of October 1, 2010, as supplemented, including as supplemented by the Fifth Supplemental Indenture, dated as of October 1, 2010, each between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee. The Master Trust Indenture, as so supplemented and as further supplemented and amended from time to time, is herein called the “Indenture”.

The Series 2010E Bonds are being issued to (i) make a deposit to the Construction Account under the Indenture to finance capital expenditures, costs and expenses associated with a hydroelectric facility to be constructed on the Captain Anthony Meldahl Locks and Dam on the Ohio River (the “Project”), including capitalized interest on the Series 2010E Bonds; (ii) fund a deposit to the Parity Common Reserve Account; and (iii) pay the costs of issuance of the Series 2010E Bonds.

AMP has entered into a Power Sales Contract dated as of March 1, 2009 (the “Power Sales Contract”) with 48 municipalities in the States of Kentucky, Ohio, Michigan and Virginia (the “Participants”). Each Participant is a member of AMP and owns and operates its own electric system (each, an “Electric System”). Under the terms of the Power Sales Contract, each Participant agrees to pay from the revenues of its Electric System, on a take-or-pay basis, for its respective share of electric power and energy from the Project.

The Series 2010E Bonds are special and limited obligations of AMP payable from and secured solely by the Trust Estate pledged under the Indenture, which includes payments to be made to AMP by the Participants pursuant to the Power Sales Contract.

**THE SERIES 2010E BONDS ARE NOT OBLIGATIONS OF OR GUARANTEED BY THE STATE OF KENTUCKY, OHIO, MICHIGAN OR VIRGINIA, THE MEMBERS OF AMP, THE PARTICIPANTS OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF KENTUCKY, OHIO, MICHIGAN OR VIRGINIA, OR ANY POLITICAL SUBDIVISION, INCLUDING THE MEMBERS OF AMP AND THE PARTICIPANTS, IS PLEDGED FOR THE PAYMENT OF THE SERIES 2010E BONDS. AMP HAS NO TAXING POWER.**

*The Series 2010E Bonds are offered, subject to prior sale, when, as and if issued and accepted by the Underwriter, subject to the approval of legality by Peck, Shaffer & Williams LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for AMP by its General Counsel, Chester Willcox & Saxbe, LLP, and by its Federal Tax Counsel, Sidley Austin LLP, and for the Underwriter by Nixon Peabody LLP. It is expected that delivery of the Series 2010E Bonds will be made on or about December 20, 2010, through the facilities of DTC.*

### **Wells Fargo Securities**

Purchases of Series 2010E Bonds involve certain investment risks as described herein. This cover page is only a brief and general summary. Investors must read the entire Official Statement to obtain essential information for making an informed investment decision. This Official Statement is dated December 17, 2010 and the information contained herein speaks only as of that date.

<sup>(1)</sup> CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and AMP does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2010E Bonds as a result of various subsequent actions including, but not limited to, a defeasance in whole or in part of the Series 2010E Bonds.

**AMERICAN MUNICIPAL POWER, INC.**

**BOARD OF TRUSTEES**

The incumbent municipalities (located in Ohio unless otherwise noted) on the AMP Board of Trustees and their representatives to the Board are as follows:

<b>Trustee</b>	<b>Representative</b>	<b>Employment</b>
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Bryan	Steve Casebere	Director of Utilities, Bryan Municipal Utilities
Celina	Rick Bachelor	Safety Services Director, City of Celina
Carey	Roy Johnson	Village Administrator, Village of Carey
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Coldwater, MI	Paul Beckhusen	Director, Coldwater Board of Public Utilities
Cuyahoga Falls	Jeff McHugh	Assistant Superintendent, Cuyahoga Falls Electric Dep't
Ephrata, PA	Gary Nace	Borough Manager, Borough of Ephrata
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Westerville	Andrew Boatright	Manager, Westerville Electric Division

The President and General Counsel of AMP are ex officio members of the Board of Trustees.

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Marc Gerken, P.E.	President
John Bentine, Esq.	General Counsel (Chester Willcox & Saxbe, LLP)
Robert Trippe	Senior Vice President, Finance and Chief Financial Officer
Jolene Thompson	Senior Vice President, Member Services and External Affairs
Pam Sullivan	Senior Vice President, Marketing and Operations

**Senior Staff**

<b><u>Officer</u></b>	<b><u>Office</u></b>
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Dan Preising	Vice President, Project Development
Jane Juergens	Vice President, Human Resources and Talent Management
Terry Leach	Vice President, Risk Control
Michael Perry	Vice President, Generation Operations
Phil Meier	Assistant Vice President, Hydroelectric Development

**General Counsel**  
Chester Willcox & Saxbe, LLP  
Columbus, Ohio

**Bond Counsel**  
Peck, Shaffer & Williams LLP  
Columbus, Ohio

**Federal Tax Counsel**  
Sidley Austin LLP  
New York, New York

**Consulting Engineers**  
Sawvel & Associates, Inc.  
Findlay, Ohio

**Financial Advisor**  
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Columbus, Ohio

**Financial Products Advisor**  
Kensington Capital Advisors LLC  
Charlotte, North Carolina

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An SAIC Company  
Orlando, Florida

**Design Engineer**  
MWH Americas, Inc.  
Bloomfield, Colorado

**Trustee**  
U.S. Bank National Association  
Cincinnati, Ohio

The information contained or incorporated by reference in this Official Statement has been obtained from AMP, DTC and other sources believed to be reliable. This Official Statement is submitted in connection with the sale of the securities described herein and may not be reproduced or used, in whole or in part, for any other purpose. The information contained in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create any implication that there have not been changes in the affairs of any party since the date of this Official Statement.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. AMP does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The Underwriter has provided the following sentence for inclusion in this Official Statement: It has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but they do not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by AMP or the Underwriter. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Series 2010E Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other government entity or agency has or will have passed upon the adequacy of this Official Statement or approved the Series 2010E Bonds for sale.

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In making an investment decision, investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. No commission or authority has confirmed the accuracy or determined the adequacy of this document.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE SERIES 2010E BONDS. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT**  
**\$355,035,000**  
**AMERICAN MUNICIPAL POWER, INC.**  
**MELDAHL HYDROELECTRIC PROJECT REVENUE BONDS**  
**SERIES 2010E (FEDERALLY TAXABLE – ISSUER SUBSIDY – BUILD AMERICA BONDS)**

**INTRODUCTION**

**GENERAL**

This Official Statement, which includes the cover page and appendices attached hereto, contains information concerning (a) American Municipal Power, Inc. (“AMP”), an Ohio nonprofit corporation established pursuant to the laws of the State of Ohio, (b) AMP’s Meldahl Hydroelectric Project Revenue Bonds, Series 2010E (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “*Series 2010E Bonds*”) and (c) the Meldahl Hydroelectric Project (the “*Project*”).

The Series 2010E Bonds are being issued by AMP to (i) make deposits to the 2010E Construction Account under the Indenture (as hereinafter defined) to finance capital expenditures, costs and expenses associated with the acquisition, construction and permitting of the Project, including capitalized interest on the Series 2010E Bonds through the estimated in-service date of the Project; (ii) fund a deposit to the Parity Common Reserve Account; and (iii) pay the costs of issuance of the Series 2010E Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**AUTHORIZATION FOR SERIES 2010E BONDS**

The Series 2010E Bonds will be issued and secured under the Master Trust Indenture, dated as of October 1, 2010 (the “*Master Trust Indenture*”), entered into between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee (the “*Trustee*”), as supplemented by the Fifth Supplemental Indenture (the “*Fifth Supplemental Indenture*”), dated as of October 1, 2010 and between AMP and the Trustee. The Master Trust Indenture, as supplemented and further supplemented and amended from time to time, is herein called the “*Indenture*”.

When issued, the Series 2010E Bonds will be the fifth series of Bonds issued under the Master Trust Indenture. The Board of Trustees of AMP by a resolution adopted on October 25, 2010, as amended on December 10, 2010, authorized the issuance and sale of the Series 2010E Bonds. The Series 2010E Bonds, the Series 2010A-D Bonds (as hereinafter defined) and any additional bonds issued under the Indenture on a parity with the Series 2010E Bonds (the Series 2010E Bonds, together with the Series 2010A-D Bonds and additional Bonds, are referred to herein as “*Bonds*”) and any Parity Debt are herein called collectively “*Parity Obligations*.” The Series 2010E Bonds will have the benefit of the Parity Common Reserve Account and are therefore “PCRA-Secured Parity Obligations” as described in “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A-D BONDS – Parity Common Reserve Account” in the Series 2010A-D Official Statement (as hereinafter defined).

## **SERIES 2010A-D BONDS**

On December 7, 2010, AMP issued its \$45,495,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable) (the “*Series 2010A Bonds*”), \$260,000,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “*Series 2010B BABs*”), \$20,000,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewable Energy Bonds) (the “*Series 2010C New CREBs*”) and \$4,570,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010D (Tax-Exempt) (the “*Series 2010D Bonds*” and, together with the Series 2010A Bonds, the Series 2010B BABs and the Series 2010C New CREBs, the “*Series 2010 A-D Bonds*”). The Series 2010A-D Bonds were issued primarily to pay a portion of the Costs of the Project, repay draws on AMP’s Line of Credit made to pay Costs of the Project, fund capitalized interest on the Series 2010A-D Bonds and the Series 2010E Bonds, fund deposits to the Parity Common Reserve Account and three Special Reserve Accounts and pay certain costs of issuance of the Series 2010A-D Bonds and Series 2010E Bonds. In particular, a portion of the proceeds of the Series 2010A Bonds will be used to fund capitalized interest on the Series 2010E Bonds for six months after the July 15, 2014 scheduled in-service date of the Project, fund a Special Reserve Account and to pay the costs of remarketing the Series 2010E Bonds.

*The Series 2010 A-D Bonds are not offered by this Official Statement.*

## **INCORPORATION BY SPECIFIC REFERENCE**

The following portions of AMP’s Official Statement dated December 2, 2010 appended hereto and relating to the Series 2010A-D Bonds (the “*Series 2010A-D Official Statement*”) are, subject to the information elsewhere included here, included by specific reference herein, including specifically the information under the following captions in the body thereof:

INTRODUCTION (under the headings “AMP”, “THE PROJECT”, “OWNERSHIP AND OPERATION OF THE PROJECT” and “OTHER”)

PLAN OF FINANCE

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A-D BONDS

DEBT SERVICE REQUIREMENTS

THE PROJECT

ENGINEERS’ REPORTS

AMERICAN MUNICIPAL POWER, INC.

THE PARTICIPANTS

CERTAIN FACTORS AFFECTING AMP, THE PARTICIPANTS AND THE ELECTRIC UTILITY INDUSTRY

LITIGATION

ADVISORS

APPROVAL OF LEGAL MATTERS

MISCELLANEOUS

and the information in the Appendices A through E, inclusive, and Appendices G, H-1, H-2 and I thereto.

## ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2010E BONDS

The sources and uses of the proceeds of the Series 2010E Bonds are estimated to be as follows:

### SOURCES:

Par Amount	<u>\$355,035,000</u>
Total Sources	<u>\$355,035,000</u>

### USES:

Deposit to 2010E Construction Account <sup>1</sup>	\$331,670,234
Deposit to Parity Common Reserve Account <sup>2</sup>	21,367,587
Costs of Issuance <sup>3</sup>	<u>2,007,178</u>
Total Uses	<u>\$355,035,000</u>

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Numbers may not add to totals due to rounding.

In addition, on the date of issue of the Series 2010E Bonds, the Trustee under the First Supplemental Indenture relating to the Series 2010A Bonds will transfer to the Trustee under the Fifth Supplemental Indenture amounts sufficient to (a) pay interest on the Series 2010E Bonds for the six-month period after the estimated in-service date of the Project of July 15, 2014 (i.e., from July 15, 2014 through January 15, 2015) and (b) make a deposit to the credit of the 2010E BABs Interest Subsidy Reserve Account equal to the Special Reserve Account Requirement therefor (as such terms are hereinafter defined).

## THE SERIES 2010E BONDS

### GENERAL

The Series 2010E Bonds will be dated their date of delivery, will accrue interest from such date and will mature on the date set forth on the cover page hereof. The Series 2010E Bonds are subject to optional redemption, in whole only, at the option of AMP, on May 23, 2011 (the “Optional Redemption Date”) and to optional tender, in whole or in part, upon demand therefor by the holder for purchase on May 23, 2011 (the “Tender Date”).

*Redemption.* AMP expects to give a conditional notice of its option to redeem all of the Series 2010E Bonds on or before the May 3, 2011 deadline for such notice to be given. AMP may, for any reason, revoke such conditional notice, but if AMP does not revoke such conditional notice on or before May 11, 2011, such notice will become irrevocable and unconditional on such date, and AMP will be obligated to redeem all the Series 2010E Bonds on May 23, 2011.

<sup>1</sup> AMP intends to pay interest on the Series 2010E Bonds through July 15, 2014 (the estimated in-service date of the Project) by transferring amounts from the 2010E Construction Account to the 2010E Interest Account, together with allocable investment earnings on the Parity Common Reserve Account and investment earnings on the 2010E BABs Interest Subsidy Reserve Account. A portion of the proceeds of the Series 2010A Bonds will be used to pay capitalized interest on the Series 2010E Bonds allocable to the period from July 15, 2014 through January 15, 2015.

<sup>2</sup> Such deposit, together with amounts deposited in the Parity Common Reserve Account from the proceeds of the Series 2010A-D Bonds, shall equal Coincidental MADS on the PCRA-Secured Parity Obligations. For purposes of calculating the Debt Service Requirements for the Series 2010E Bonds, the Amortization Schedule contained in the table entitled “Debt Service Requirements for the Series 2010E Bonds” on pages 16 and 17 of the Series 2010A-D Official Statement was used to determine the Principal Requirement and an interest rate of 1.95% (3.00% net of the Federal Subsidy) was used to calculate the Interest Requirement on the Series 2010E Bonds through May 23, 2011 and an interest rate of 4.874% (7.499% net of the Federal Subsidy) thereafter.

<sup>3</sup> Includes underwriting discount and rating agency, Trustee, consultant and legal fees and other expenses related to the issuance of the Series 2010E Bonds.

*Tender.* Each holder of Series 2010E Bonds has the right to tender its Series 2010E Bonds for purchase by the Remarketing Agent on May 23, 2011. A holder wishing so to tender its Series 2010E Bonds must give notice of its election to the Remarketing Agent not earlier than May 12, 2011 and not later than 4:00 P.M., New York City time, on May 17, 2011. **IF THE HOLDER DOES NOT GIVE TIMELY NOTICE OF ITS ELECTION TO TENDER ITS BONDS FOR PURCHASE AND IF THE REMARKETING AGENT ESTABLISHES A MARKET CLEARING RATE (AS DEFINED HEREIN) FOR THE SERIES 2010E BONDS ON MAY 23, 2011 OR THEREAFTER, SUCH HOLDER WILL BE DEEMED (1) TO HAVE ELECTED NOT TO TENDER ITS SERIES 2010E BONDS FOR PURCHASE AND (2) TO HAVE ELECTED TO ACCEPT REMARKETED SERIES 2010E BONDS CONVERTED TO FIXED RATE BONDS AND BEARING INTEREST AT A LONG-TERM RATE IN EXCHANGE FOR ITS SERIES 2010E BONDS BEARING INTEREST AT A SHORT-TERM RATE. IF TIMELY NOTICE IS GIVEN, THE ELECTION TO TENDER BECOMES IRREVOCABLE AT 4:00 P.M., NEW YORK CITY TIME, ON MAY 17, 2011.**

*Failed Remarketing.* In the event that the Remarketing Agent is unable to set the Market Clearing Rate on the Series 2010E Bonds on or before May 23, 2011, the Series 2010E Bonds will continue to bear interest at the Short-Term Rate, the calculation of which will include an incremental spread (the “*Incremental Spread*”) that will increase in accordance with the following schedule, subject in all cases to the Ceiling Rate:

<u>Interest Period</u>	<u>Incremental Spread</u>
May 23, 2011 – July 31, 2011	1.50%
August 1, 2011 - August 31, 2011	3.00
September 1, 2011 – September 30, 2011	4.50

If the Remarketing Agent has not set a Market Clearing Rate on or before October 1, 2011, the Series 2010E Bonds shall bear interest at a Short-Term Rate of 12% per annum from and after October 1, 2011 unless and until the Remarketing Agent establishes a Market Clearing Rate in which case the Short-Term Rate on the Series 2010E Bonds will convert to the Long-Term Rate, and the Series 2010E Bonds held by holders who timely elected to tender their Series 2010E Bonds on any date from May 12, 2011 through May 17, 2011 will be purchased by the Remarketing Agent from the remarketing proceeds.

*Denominations.* The Series 2010E Bonds will be issuable only in fully registered form in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Interest on any Series 2010E Bond will be paid to the person in whose name such bond is registered as of the applicable Regular Record Date, which the close of business on the last Business Day of each Interest Period. While bearing interest at a Short-Term Rate, interest on the Series 2010E Bonds shall be computed on the basis of a 365-day or 366-day year, as the case may be, based on the actual number of days elapsed.

*This Official Statement does not purport to provide a full description of the provisions of the Series 2010E Bonds while bearing interest at the Long-Term Rate. If the Series 2010E Bonds are to be remarketed to bear interest at a Long-Term Rate on the Conversion Date, AMP will deliver, on or prior to the Tender Date, a Reoffering Memorandum describing the Series 2010E Bonds bearing interest at a Long-Term Rate.*



## **DESIGNATION OF SERIES 2010E BONDS AS “BUILD AMERICA BONDS”**

AMP will designate the Series 2010E Bonds as “Build America Bonds” for purposes of the Recovery Act. Furthermore, AMP intends to elect to apply Section 54AA(g) of the Code with respect to the Series 2010E Bonds, pursuant to which AMP will be allowed by the United States Treasury a credit that AMP will receive in the form of the BABs Federal Subsidy, payable quarterly in arrears while the Series 2010E Bonds bear interest at a Short-Term Rate, to the Trustee for the credit of AMP, pursuant to Section 6431 of the Code.

AMP expects that the Trustee will receive the Federal Subsidy for the Series 2010E Bonds. The Federal Subsidy does not constitute a full faith and credit guarantee of the United States, but are required to be paid by the Treasury under the Recovery Act.

**AMP is obligated to make all payments of principal and interest on the Series 2010E Bonds whether or not it receives the Federal Subsidy pursuant to the Recovery Act, but solely from the revenues, moneys, securities and funds pledged to the payment thereof in the Indenture.**

**Section 54AA(f)(1) of the Code provides that interest on any Build America Bond shall be includable in gross income. Under no circumstances will the owner of a Series 2010E Bond receive a credit under Section 54AA(f)(1) of the Code against the tax imposed.**

## **SPECIAL RESERVE ACCOUNT FOR THE SERIES 2010E BONDS**

As permitted by the Indenture, a Special Reserve Account, the “2010E BABs Interest Subsidy Reserve Account,” will be created under the Fifth Supplemental Indenture authorizing the Series 2010E Bonds and funded on the date of issue of the Series 2010E Bonds from proceeds of the Series 2010A Bonds. Amounts deposited to such Special Reserve Account will be pledged to the Trustee under the Fifth Supplemental Indenture to pay interest on the Series 2010E Bonds in the event that the Federal Subsidy is not received by the Trustee on a timely basis or the amount of the Federal Subsidy received is less than scheduled; provided, however, that if the Parity Common Reserve Account has been completely depleted, such Special Reserve Account may be drawn upon to pay the principal of and interest on the Series 2010E Bonds.

The Special Reserve Account Requirement for the 2010E BABs Interest Subsidy Reserve Account will be, as of any date of calculation, 35% of the Interest Requirement for the current semi-annual Interest Period. Prior to the conversion of the Series 2010E Bonds to bear interest at the Long-Term Rate, the Interest Requirement will be assumed to be the interest rate on the Series 2010B Bonds due on February 15, 2050 (7.499% per annum) net of the 35% Federal Subsidy, or 4.874% per annum. For Series 2010E Bonds bearing interest at the Long-Term Rate, the Interest Requirement will be based on such fixed rate.

**The 2010E BABs Interest Subsidy Reserve Account secures only the Series 2010E Bonds.**

## **CERTAIN DEFINITIONS**

As used herein, each of the following terms will have the meaning indicated:

“*Business Day*” means any day other than (a) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized or required by law or executive order to close or (b) a day on which The New York Stock Exchange is closed.

*“Calculation Agent”* means Wells Fargo Bank, National Association, its successors and assigns.

*“Ceiling Rate”* means 12% per annum.

*“Conversion Date”* means May 23, 2011.

*“Fixed Spread”* means 295 basis points.

*“Incremental Spread”* means the additional spread (above the Fixed Spread) shown above for the various dates applicable to the Series 2010E Bonds on and after May 23, 2011.

*“Interest Payment Date”* means, while the Series 2010E Bonds bear interest at a Short-Term Rate, the first Business Day of each month, commencing February 1, 2011, any Redemption Date, the Conversion Date and, if later than May 23, 2011, any date on which the Remarketing Agent is able to establish the Market Clearing Rate.

*“Long-Term Rate”* means the fixed rate of interest per annum on the Series 2010E Bonds determined by the Remarketing Agent as the lowest fixed rate that will allow the Remarketing Agent to sell the Series 2010E Bonds at a price equal to the principal amount thereof (the *“Market Clearing Rate”*) on the Long-Term Rate Determination Date.

*“Long-Term Rate Determination Date”* means the date on which the Long-Term Rate is determined by the Remarketing Agent on the Conversion Date. The Long-Term Rate Determination Date will be on May 18, 2011 or such later date on which the Remarketing Agent sets the Market Clearing Rate if the Remarketing Agent is unable to set a Market Clearing Rate on May 18, 2011.

*“LIBOR”* means the rate per annum determined on the basis of the rate of deposits in United States dollars offered for a term of three months, which rate appears on the display designated on the Reuters LIBOR01 Page (or such other page as may replace the Reuters LIBOR01 Page or such other service or services as may be nominated by the British Bankers’ Association for the purpose of displaying London interbank offered rates for United States dollar deposits), determined as of approximately 11:00 a.m., London time, on each Rate Determination Date, or if such rate is not available, another rate determined by the Trustee (who may rely upon an opinion of a commercial or investment banking firm knowledgeable in municipal finance) of which AMP has received written notice.

*“Rate Determination Date”* means Wednesday of each week while the Series 2010E Bonds bear interest at a Short-Term Rate; provided that if any Wednesday does not constitute a London business day, the London business day immediately preceding such Wednesday.

*“Redemption Date”* means May 23, 2011. References to the term Redemption Date shall only be applicable if AMP timely exercises its right to redeem the Series 2010E Bonds.

*“Short-Term Rate”* means for each Short-Term Rate Period (i) to, but not including, May 23, 2011, a per annum rate of interest equal to the sum of the LIBOR plus the Fixed Spread; (ii) on and after May 23, 2011 to, and including, September 30, 2011, the sum of LIBOR, plus the Fixed Spread, plus the Incremental Spread and (iii) on and after October 1, 2011, 12% per annum.

*“Short-Term Rate Period”* means the period beginning on, and including, the date of issuance of the Bonds, and, in each case, ending on, and including, the next Wednesday, and thereafter the period beginning on, and including, any Thursday and ending on, and including, the earliest of the following Wednesday, the day preceding the Redemption Date, the day preceding the Conversion Date or the day

preceding the day on which the Remarketing Agent is able to set the Market Clearing Rate, if such date is later than May 23, 2011.

“*Tender Agent*” means U.S. Bank National Association, its successors and assigns.

#### **DETERMINATION OF SHORT-TERM RATE**

During each Short-Term Rate Period, the Series 2010E Bonds shall bear interest at the Short-Term Rate. The Short-Term Rate shall be determined by the Calculation Agent on each Rate Determination Date. The Short-Term Rate determined by the Calculation Agent on each Rate Determination Date shall become effective on the first day of the Short-Term Rate Period next succeeding such Rate Determination Date. The Short-Term Rate shall be rounded upward to the fifth decimal place. The Calculation Agent’s determination of any Short-Term Rate, and its calculation of the amount of interest for any Short-Term Interest Period, will be final and binding in the absence of manifest error. *No Series 2010E Bond shall bear interest at a Short-Term Rate in excess of the Ceiling Rate.*

#### **OPTIONAL TENDER FOR PURCHASE OF THE SERIES 2010E BONDS**

The Series 2010E Bonds will be subject to purchase on the demand of the owners thereof on May 23, 2011 at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date. Any such demand for purchase may be made by holders only through such holder’s Direct Participant upon written notice or electronic notice to the Remarketing Agent and the Tender Agent at the Designated Office of the Tender Agent on any Business Day beginning on May 12, 2011 and ending at 4:00 P.M., New York City time, on May 17, 2011. Notwithstanding the foregoing, there will be no purchase of less than the entire amount of any Series 2010E Bond unless the amount to be purchased and the amount to be retained by such holder are in authorized denominations.

Unless AMP shall have irrevocably and unconditionally called all the Series 2010E Bonds for redemption on May 23, 2011, on the Conversion Date, Wells Fargo Bank, National Association (the “*Remarketing Agent*”) will, pursuant to a Remarketing Agreement between AMP and the Remarketing Agent, remarket the Series 2010E Bonds bearing interest in the Long-Term Rate set by the Remarketing Agent on the Long-Term Rate Determination Date.

*In the event the Remarketing Agent successfully establishes the Market Clearing Rate on the Long-Term Rate Determination Date, holders who have not given timely notice of their tender of their Series 2010E Bonds for purchase will, from and after the Conversion Date, hold their Series 2010E Bonds bearing interest at the Long-Term Rate determined by the Remarketing Agent on the Long-Term Rate Determination Date. The principal component of the purchase price of the Series 2010E Bonds tendered for purchase by the holders thereof will be paid from the proceeds of the remarketing of the Series 2010E Bonds and the interest component of the purchase price will be paid from amounts on deposit in the 2010E Construction Account.*

*If the Remarketing Agent is unable to establish a Market Clearing Rate on or before the Conversion Date, the Series 2010E Bonds will continue to bear interest at a Short-Term Rate (including the Fixed Spread and the Incremental Spread) until such time a Market Clearing Rate is established. In such event, and until a Market Clearing Rate has been set, holders who have tendered their Series 2010E Bonds for purchase will retain such Series 2010E Bonds bearing interest at the Short-Term Rate. If the Remarketing Agent cannot establish the Market Clearing Rate on the Long-Term Rate Determination Date, the Remarketing Agent will continuously, on a commercially-reasonable basis, attempt to establish the Market Clearing Rate. Once a Market Clearing Rate has been set, holders who have tendered their Series 2010E Bonds will be deemed to have tendered such*

***Series 2010E Bonds for purchase on the date the Series 2010E Bonds are converted to bear interest a Long-Term Rate and shall be paid the purchase price therefor as described above.***

***AMP is not obligated to purchase any Series 2010E Bonds tendered for purchase by the holders thereof and any failure of the Remarketing Agent to establish a Market Clearing Rate on the Conversion Date or any subsequent date so as to provide funds to effect such purchase will not constitute an Event of Default under the Indenture.***

## **REDEMPTION**

### **During Short-Term Rate Periods**

**Optional Redemption.** From any available moneys, AMP may, at its option, redeem, in whole only, the Series 2010E Bonds on May 23, 2011, at a Redemption Price of par, together with interest accrued to such date.

### **During Long-Term Rate Period**

**Make-Whole Optional Redemption.** From any available moneys, AMP may, at its option, redeem, on any Business Day, prior to their respective maturities, in whole or in part, the Series 2010E Bonds at the “Make Whole-Redemption Price” (as such term is defined below). The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the Series 2010E Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2010E Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010E Bonds are to be redeemed, discounted on a semi-annual basis to the date on which the Series 2010E Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (as defined below) plus a spread, to be expressed in basis points (which spread will be determined prior to the Conversion Date and detailed in any Reoffering Circular delivered in connection with the remarketing of the Series 2010E Bonds), plus, in each case, accrued and unpaid interest on the Series 2010E Bonds to be redeemed on the redemption date.

The “Treasury Rate” means, with respect to any redemption date for a particular Series 2010E Bond, the yield to maturity as of such redemption date of U.S. Treasury securities (excluding inflation indexed securities) with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 45 calendar days, such date to be selected by AMP, prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed, provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year will be used.

**Extraordinary Optional Redemption.** The Series 2010E Bonds are subject to redemption from any available moneys, at the option of AMP, prior to their maturity, in whole or in part upon the occurrence of an Extraordinary Event, at a Redemption Price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed; and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted on a semi-annual basis to the date on which the Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus a spread, to be expressed in basis points (which spread will be determined prior to the Conversion Date and detailed in

any Reoffering Circular delivered in connection with the remarketing of the Series 2010E Bonds), plus, in each case, accrued interest on the Series 2010E Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if (i) AMP determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) or (ii) there is any guidance published by the IRS or the United States Treasury with respect to such Sections or any other determination by the IRS or the United States Treasury, and pursuant to which the Federal Subsidy from the United States Treasury is reduced or eliminated other than as the result of any act or omission by AMP to satisfy the requirements to qualify to receive the Federal Subsidy from the United States Treasury.

**Mandatory Sinking Fund Redemption.**

The Series 2010E Bonds due on February 15, 2050, are Term Bonds subject to mandatory sinking fund redemption on February 15 in the following years in the following principal amounts at a Redemption Price equal to par, together with interest accrued to the date of redemption:

**Series 2010E Term Bonds Maturing on February 15, 2050**

<b><u>Year</u></b>	<b><u>Principal Amount</u></b>
2021	\$ 2,445,000
2022	10,535,000
2023	11,055,000
2024	7,890,000
2025	8,185,000
2026	8,485,000
2027	2,515,000
2028	145,000
2029	9,425,000
2030	9,765,000
2031	10,110,000
2032	10,465,000
2033	10,825,000
2034	11,190,000
2035	9,155,000
2036	12,470,000
2037	12,890,000
2038	13,325,000
2039	13,755,000
2040	14,195,000
2041	14,635,000
2042	15,080,000
2043	15,525,000
2044	15,975,000
2045	16,420,000
2046	16,860,000
2047	17,295,000
2048	17,725,000
2049	18,145,000
2050	18,550,000*

\* Unamortized balance at final maturity.

*Selection of Series 2010E Bonds to be Redeemed.* If the Series 2010E Bonds are not registered in book-entry-only form, any redemption of less than all of the Series 2010E Bonds will be allocated among the registered owners of such Series 2010E Bonds as nearly as practicable in proportion to the principal amounts of the Series 2010E Bonds owned by each registered owner, subject to the authorized denominations applicable to the Series 2010E Bonds. This will be calculated based on the formula: (principal to be redeemed) x (principal amount owned by owner) / (principal amount outstanding). The particular Series 2010E Bonds to be redeemed will be determined by the Trustee, using such method as the Trustee in its sole discretion shall determine.

For so long as the Series 2010E Bonds are registered in book-entry-only form and the Depository Trust Company or a successor securities depository, or its nominee, is the sole registered owner of such Series 2010E Bonds, in the event of a redemption of less than all of the Series 2010E Bonds, the particular ownership interests of such Series to be redeemed will be determined by DTC and Direct DTC Participants and Indirect DTC Participants (all as defined in Appendix G in the Series 2010A-D Official Statement), or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. The Series 2010E Bonds will be made eligible for partial redemptions to be treated by DTC, in accordance with its rules and procedures, as a “pro-rata pass-through distribution of principal”, and partial redemptions are expected to be processed by DTC on a pro-rata pass-through distribution of principal basis in accordance with such rules and procedures. In the event of a partial redemption of Series 2010E Bonds, the security position at DTC will not be reduced but the balance will be subject to adjustment by a factor to be provided to DTC by the Trustee. If, at the time of a partial redemption of a Series of Series 2010E Bonds, the Trustee fails to identify the Series 2010E Bonds being redeemed or purchased as being subject to a pro-rata pass-through distribution of principal and/or fails to furnish such factor to DTC, DTC’s rules and procedures provide that such redemption or purchase will be processed by random lottery.

AMP provides no assurance that DTC and any Direct DTC Participant and Indirect DTC Participant, or any successor securities depository or other intermediary, will make any such determination on a pro rata basis or effectuate a pro-rata pass-through distribution of principal in the case of a partial redemption of Series 2010E Bonds, and that the Trustee will identify the Series 2010E Bonds and provide the appropriate factor as described above in the case of a partial redemption of Series 2010E Bonds, and in each case any failure to do so shall not affect the sufficiency or the validity of the related redemption of Series 2010E Bonds.

*Defeasance of Series 2010E Bonds; Effect Thereof.* ***The provisions described below only pertain to the Series 2010E Bonds while bearing interest at a Long-Term Rate.***

Under the Indenture, AMP may cause the deposit of moneys or securities to an escrow in an amount sufficient to pay the principal and Redemption Price of and interest on all or any of the Series 2010E Bonds and/to defease either (i) all its obligations under the Indenture with respect to the Series 2010E Bonds so redeemed (“*Legal Defeasance*”) or (ii) its obligations under certain covenants contained in the Indenture (“*Covenant Defeasance*”) with respect to the Bonds. AMP may complete a Legal Defeasance with respect to any Series 2010E Bonds notwithstanding the prior completion of a Covenant Defeasance. Exercise of these rights is subject to the satisfaction of certain conditions precedent. In order to accomplish a Legal Defeasance, AMP must deliver to the Trustee of an opinion of counsel experienced in federal income tax matters stating that (i) AMP has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of the respective supplemental Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the bonds will not recognize income, gain or loss for federal tax purposes as a result of such Legal Defeasance and will be

subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred. In order to accomplish a Covenant Defeasance, AMP must deliver to the Trustee an opinion of counsel experienced in federal income tax matters to the effect that the holders of the bonds will not recognize income, gain or loss for federal tax purposes as a result of such covenant defeasance and will be subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred.

## **NOTICE OF REDEMPTION**

Unless waived by any owner of Series 2010E Bonds to be redeemed, official notice of any such redemption shall be given by the Trustee by certified mail, return receipt requested, at least 20, but not more than 45, days prior to the redemption date to each registered owner of the Series 2010E Bonds to be redeemed at the address shown on the bond register.

While the Series 2010E Bonds bear interest at a Short-Term Rate, if AMP shall exercise its right to redeem the 2010E Bonds on May 23, 2011, the 2010E Bonds called for redemption shall become due and payable at the Redemption Price provided therefor, plus accrued interest to the redemption date; *provided, however*, that AMP may provide that the notice of such optional redemption is revocable at any time on or before May 11, 2011; *provided, further, however*, if AMP does not revoke any such notice of redemption on or before May 11, 2011, such notice shall be deemed to have become irrevocable as of such date, and if sufficient moneys to pay the Redemption Price and accrued interest on May 23, 2011 shall not be so on deposit with the Trustee, such event shall constitute an Event of Default under the Indenture.

While the Series 2010E Bonds bear interest at a Long-Term Rate, any redemption notice may be conditioned upon moneys being on deposit with the Trustee on or prior to the redemption date in an amount sufficient to pay the redemption price on the redemption date. If such notice is conditional and moneys are not received, such notice shall be of no force and effect, the Trustee shall not redeem such Series 2010E Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Series 2010E Bonds will not be redeemed.

The failure of any owner of Series 2010E Bonds to receive such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2010E Bonds. Any notice mailed as provided in this section shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any owner receives such notice.

**So long as DTC is effecting book-entry transfers of the Series 2010E Bonds, the Trustee shall provide the notices specified above only to DTC. It is expected that DTC will, in turn, notify the Direct Participants, that the Direct Participants will, in turn, notify the Indirect Participants and that the Direct Participants and the Indirect Participants will notify or cause to be notified the Beneficial Owners. Any failure on the part of DTC, a Direct Participant or an Indirect Participant, or failure on the part of a nominee of a Beneficial Owner of a Series 2010E Bond (having been mailed notice from the Trustee, a Direct Participant, an Indirect Participant or otherwise), to notify the Beneficial Owner of the Series 2010E Bond so affected, shall not affect the validity of the redemption of such Series 2010E Bond.**

## **CONTINUING DISCLOSURE UNDERTAKING**

Pursuant to a Continuing Disclosure Agreement to be entered into by AMP simultaneously with the delivery of the Series 2010E Bonds (the “*Continuing Disclosure Agreement*”), AMP will covenant for

the benefit of the Bondowners and the “Beneficial Owners” (as defined in the Continuing Disclosure Agreement) of the Series 2010E Bonds to provide, on an annual basis, by November 30 of each year, commencing with the report for AMP fiscal year ending December 31, 2010, certain financial information and operating data relating to Hamilton and the other Large Participants (the “*Annual Disclosure Report*”), and to provide notices of the occurrence of certain enumerated events with respect to the Series 2010E Bonds. Pursuant to Securities and Exchange Commission Rule 15c2-12 (as the same may be amended from time to time, “*Rule 15c2-12*”), the Annual Disclosure Report will be filed by or on behalf of AMP with the Municipal Securities Rulemaking Board (“*MSRB*”), through its Electronic Municipal Market Access (“*EMMA*”) system, in the electronic format prescribed by the MSRB. The notices of such events will be filed by or on behalf of AMP with the MSRB. The substantive provisions of the Continuing Disclosure Agreement, including the specific nature of the information to be contained in the Annual Disclosure Report or the notices of material events, are substantially similar to the Continuing Disclosure Agreement appearing as APPENDIX I to AMP’s Series 2010A-D Official Statement. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

As will be provided in the Continuing Disclosure Agreement, if AMP fails to comply with any provision of the Continuing Disclosure Agreement, any Bondowner or “Beneficial Owner” of the Series 2010E Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause AMP to comply with its obligations under the Continuing Disclosure Agreement. “Beneficial Owner” will be defined in the Continuing Disclosure Agreement to mean any person holding a beneficial ownership interest in Series 2010E Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of DTC). IF ANY PERSON SEEKS TO CAUSE AMP TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE AGREEMENT, IT IS THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A “BENEFICIAL OWNER” WITHIN THE MEANING OF THE CONTINUING DISCLOSURE AGREEMENT.

As described under APPENDIX G - “Book-Entry System” - to the Series 2010A-D Official Statement, upon initial issuance, the Series 2010E Bonds will be issued in book-entry-only form through the facilities of DTC, and the ownership of one fully registered Series 2010E Bond for each maturity, in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC.

## UNDERWRITING

The Series 2010E Bonds are being purchased by Wells Fargo Bank, National Association (the “*Underwriter*”) pursuant to a Purchase Contract (the “*Purchase Contract*”) between AMP and the Underwriter. The Purchase Contract sets forth the Underwriter’s obligation to purchase the Series 2010E Bonds at a purchase price reflecting an aggregate underwriter’s discount of \$1,289,717 from the initial public offering price on the cover of this Official Statement, subject to certain terms and conditions, including the approval of certain matters by counsel. The Purchase Contract provides that the Underwriter will purchase all of the Series 2010E Bonds if any are purchased.

In the ordinary course of its business, the Underwriter has engaged and, in the future, may engage in investment banking and/or commercial banking transactions with AMP.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.



Wells Fargo Bank, National Association (“WFBNA”), the Underwriter of the Bonds, has entered into an agreement (the “Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

## **RATINGS**

The Series 2010E Bonds have been assigned long-term ratings of “A” by Fitch Inc., “A3” by Moody’s Investors Service, Inc. and “A” by Standard & Poor’s, a division of The McGraw Hill Companies, Inc.

Certain information and materials not included in this Official Statement were furnished to the rating agencies. A securities rating is not a recommendation to buy, sell or hold securities. There is no assurance that a rating, once obtained, will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the opinion of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the marketability or market price of the Series 2010E Bonds. AMP has not undertaken any responsibility after issuance of the Series 2010E Bonds to assure the maintenance of the ratings applicable thereto or to oppose any revision or withdrawal of such ratings.

## **TAX MATTERS**

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### *Circular 230 Notice*

Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Series 2010E Bonds was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the Series 2010E Bonds to any person, and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

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## **GENERAL**

The following is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Series 2010E Bonds. This discussion does not purport to be a complete analysis of all the potential tax consequences of such purchase, ownership and disposition and is based on the Code, Treasury regulations administrative rulings and judicial decisions in effect as of the date hereof. Those authorities are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor’s individual circumstances or to certain types of investors subject to special treatment under the U.S. federal income tax laws (including persons whose functional currency is not the U.S. dollar, entities classified as partnerships for U.S. federal income tax purposes, life insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, banks, tax-exempt organizations or persons holding Series 2010E Bonds in a tax-deferred or tax-advantaged account, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, persons who hold Series 2010E Bonds as part of a hedging, straddle, integrated, conversion or

constructive sale transaction, persons who have ceased to be U.S. citizens or to be taxed as resident aliens or persons liable for the alternative minimum tax) and does not discuss any aspect of state, local or foreign tax laws. This discussion applies only to U.S. holders and non-U.S. holders (each defined below) of Series 2010E Bonds who purchase their Series 2010E Bonds in the original offering at the original offering price, and who hold their Series 2010E Bonds as capital assets. This discussion does not address any tax consequences applicable to a holder of an equity interest in a holder of Series 2010E Bonds. In particular, this discussion does not address any tax consequences applicable to a partner in a partnership holding Series 2010E Bonds. If a partnership holds Series 2010E Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Thus, a person who is a partner in a partnership holding Series 2010E Bonds should consult his or her own tax advisor.

This summary only addresses Series 2010E Bonds with the features described herein.

**Prospective purchasers are urged to consult their own tax advisors with respect to the U.S. federal and other tax consequences of the purchase, ownership and disposition of the Series 2010E Bond before determining whether to purchase Series 2010E Bonds. In addition, prospective purchasers are urged to consult their own tax advisors regarding recent changes to the Code enacted by Congress.**

In this discussion, the term “U.S. Holder” means a beneficial owner of Series 2010E Bonds that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust properly elected to be treated as a United States person. As used herein, the term “non-U.S. Holder” means a beneficial owner Series 2010E Bonds that is not a U.S. Holder.

## **U.S. HOLDERS**

### *Interest on Series 2010E Bonds.*

The interest payable on the Series 2010E Bonds at both the Short-Term Rate and the Long-Term Rate will be treated by the issuer as “qualified stated interest” (as defined below) for U.S. federal income tax purposes and by acquiring a Series 2010E Bond a Holder agrees to treat the interest payable on such Series 2010E Bond in the same manner for all tax reporting purposes. If the interest payable on the Series 2010E Bonds is not treated as qualified stated interest, then the timing and characterization of the payments on the Series 2010E Bonds could be different from that which is described below. The balance of this discussion assumes that such treatment is correct.

Payments of interest on the Series 2010E Bonds will be included in gross income for U.S. federal income tax purposes by a U.S. Holder as ordinary income at the time the interest is paid or accrued in accordance with the U.S. Holder’s regular method of accounting for tax purposes.

### *Original Issue Discount.*

The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Series 2010E Bonds issued with original issue

discount (“*Discount Bonds*”), if any. The following summary is based on the final Treasury regulations promulgated under the original issue discount provisions of the Code (the “*OID Regulations*”).

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally  $\frac{1}{4}$  of 1% of the bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each maturity of the Series 2010E Bonds equals the first price at which a “substantial amount” of such maturity has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Series 2010E Bond is the sum of all payments provided by such Series 2010E Bond other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. Qualified stated interest also includes interest that is payable at a “qualified floating rate,” which can include a rate based on an interest rate index such as LIBOR. Payments of qualified stated interest on a Series 2010E Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder’s regular method of tax accounting), as described above.

A U.S. Holder of a Discount Bond must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder’s regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Discount Bond is the sum of the daily portions of original issue discount with respect to such Discount Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder holds such Discount Bond. The “daily portion” of original issue discount on any Discount Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An “accrual period” may be of any length and the accrual periods may vary in length, over the term of the Discount Bond, provided that each accrual period is no longer than one year and that each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Discount Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

#### Acquisition Premium.

A U.S. Holder who purchases a Discount Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the Discount Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Discount Bond at an “acquisition premium.” Under the acquisition premium rules, the amount of original issue discount that such U.S. Holder must include in its gross income with respect to such Discount Bond for any taxable year (or portion thereof in which the U.S. Holder holds the

Discount Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

#### Market Discount.

If a U.S. Holder purchases a Series 2010E Bond, other than a Discount Bond, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of a Discount Bond, for an amount that is less than its revised issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Series 2010E Bond at a “market discount,” unless the amount of such market discount is less than a specified de minimis amount. For this purpose, the “revised issue price” of a Series 2010E Bond generally equals its issue price, increased by the amount of any original issue discount that has been accrued on such Series 2010E Bond and decreased by the amount of any payments previously made on such Series 2010E Bond that were not qualified stated interest payments.

Under the market discount rules, a U.S. Holder is required to treat any partial principal payment (or, in the case of a Discount Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Series 2010E Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain, or (ii) the amount of market discount that has not previously been included in gross income and is treated as having accrued on such Series 2010E Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of such Series 2010E Bond, unless the U.S. Holder elects to accrue market discount on the basis of a constant yield method.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Series 2010E Bond with market discount until the maturity of such Series 2010E Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant yield basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of such Series 2010E Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

#### Premium.

If a U.S. Holder purchases a Series 2010E Bond for an amount that is greater than the sum of all amounts payable on such Series 2010E Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased such Series 2010E Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of such Series 2010E Bond and may offset interest otherwise required to be included in respect of such Series 2010E Bond during any taxable year by the amortized amount of such premium for the taxable year. However, if a Series 2010E Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules will apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of such Series 2010E Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments held or acquired by the

U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

The following rules apply to any Series 2010E Bond that may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity. The amount of amortizable bond premium attributable to such Series 2010E Bond is equal to the lesser of (1) the difference between (A) such U.S. Holder's tax basis in the Series 2010E Bond and (B) the sum of all amounts payable on such Series 2010E Bond after the purchase date, other than payments of qualified stated interest or (2) the difference between (X) such U.S. Holder's tax basis in such Series 2010E Bond and (Y) the sum of all amounts payable on such Series 2010E Bond after the purchase date due on or before the early call date, described below, other than payments of qualified stated interest. If a Series 2010E Bond may be redeemed on more than one date prior to maturity, the early call date and amount payable on the early call date that produces the lowest amount of amortizable bond premium, is the early call date and amount payable that is initially used for purposes of calculating the amount pursuant to clause (2) of the previous sentence. If an early call date is not taken into account in computing premium amortization and the early call is in fact exercised, a U.S. Holder will be allowed a deduction for the excess of the U.S. Holder's tax basis in the Series 2010E Bond over the amount realized pursuant to the redemption. If an early call date is taken into account in computing premium amortization and the early call is not exercised, the Series 2010E Bond will be treated as "reissued" on such early call date for the call price. Following the deemed reissuance, the amount of amortizable bond premium is recalculated pursuant to the rules of this section "Premium." The rules relating to a Series 2010E Bonds that may be optionally redeemed are complex and, accordingly, prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

*Election to Use Constant Yield Method for all Interest, Discount and Premium.*

U.S. Holders may generally, upon election, include in income all interest (including stated interest, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions. If this election is made with respect to a debt instrument having market discount then the holder will be treated as having made the market discount election with respect to all other debt instruments as described under "Market Discount ." Similarly, if this election is made with respect to a debt instrument having amortizable premium, then the holder will be treated as having made the premium amortization election with respect to all other debt instruments as described under "Premium." The constant yield election may be revoked only with the consent of the IRS.

*Disposition of Series 2010E Bonds.*

Except as discussed above, upon the sale, exchange, redemption or retirement of a Series 2010E Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) of such Series 2010E Bond and such U.S. Holder's adjusted tax basis in such Series 2010E Bond. A U.S. Holder's adjusted tax basis in a Series 2010E Bond generally will equal such U.S. Holder's initial investment in the Series 2010E Bond increased by any original issue discount included in income (and accrued market discount, acquisition premium, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Series 2010E Bond. Such gain or loss generally will be long term capital gain or loss if the Series 2010E Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. holder is an individual,

long term capital gain may be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

## **NON-U.S. HOLDERS**

A non-U.S. holder who is an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2010E Bonds on its own behalf will not be subject to U.S. federal income tax on payments of principal of, or premium (if any), or interest (including original issue discount, if any) on Series 2010E Bonds, unless the non-U.S. holder is a direct or indirect 10% or greater shareholder of AMP, a controlled foreign corporation related to AMP or a bank receiving interest described in section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the Series 2010E Bonds,
- certifies that the owner is not a U.S. holder, and
- provides the beneficial owner's name and permanent residence address.

A “Withholding Agent” is the last U.S. payor (or non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. holder (that itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN, which is effective for the remainder of the year of signature and three full calendar years thereafter, unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a Form W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of any change and furnish a new Form W-8BEN. A non-U.S. holder of Series 2010E Bonds that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2010E Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Series 2010E Bonds held by a foreign partnership or foreign trust, the partners or beneficiaries rather than the partnership or trust will be required to provide the certification discussed above, and the partnership or trust will be required to provide certain additional information.

A non-U.S. holder of Series 2010E Bonds whose income from such Series 2010E Bonds is effectively connected with the conduct of a U.S. trade or business generally will be taxed as if the holder were a U.S. holder (and, if the non-U.S. holder of Series 2010E Bonds is a corporation, possibly subject to a branch profits tax at a 30% rate or lower rate as may be prescribed by an applicable tax treaty), provided the holder furnishes to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities that are not beneficial owners may be able to provide a signed statement to the Withholding Agent. In that case, however, the signed statement may require a copy of the beneficial owner's Form W-8BEN.

Generally, a non-U.S. holder will not be subject to U.S. federal income tax on any capital gain recognized on retirement or disposition of Series 2010E Bonds, unless the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the retirement or disposition of such Series 2010E Bonds, and that gain is derived from sources within the United States.

Certain other exceptions may apply, and a non-U.S. holder in these circumstances should consult his tax advisor.

Series 2010E Bonds will not be includible in the estate of a non-U.S. holder unless the decedent was a direct or indirect 10% or greater shareholder of AMP or, at the time of the decedent's death, income from such Series 2010E Bonds was effectively connected with the conduct by the decedent of a trade or business in the United States.

#### **INFORMATION REPORTING AND BACKUP WITHHOLDING**

Information reporting requirements, on IRS Form 1099, generally apply to (i) payments of principal of and interest on Series 2010E Bonds to a noncorporate U.S. Holder within the United States or by a U.S. paying agent or other U.S. intermediary, including payments made by wire transfer from outside the United States to an account maintained in the United States, and (ii) payments to a noncorporate U.S. Holder of the proceeds from the sale of Series 2010E Bonds effected by a U.S. broker or agent or at a U.S. office of a broker.

Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the backup withholding rules. Compliance with the identification procedures described in the preceding section will establish an exemption from backup withholding for those non-U.S. holders who are not exempt recipients.

#### **BUILD AMERICA BOND DESIGNATION**

The Series 2010E Bonds will be issued as "Build America Bonds," and AMP will elect to receive a cash subsidy payment from the United States Treasury equal to thirty-five percent (35%) of the interest payable by AMP on the Series 2010E Bonds. **UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE SERIES 2010E BONDS RECEIVE OR BE ENTITLED TO A CREDIT AT ANY TIME AGAINST THE TAX IMPOSED BY THE CODE.**

#### **OHIO TAX CONSIDERATIONS**

In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, interest on the Series 2010E Bonds will be exempt from taxes levied by the State of Ohio and its subdivisions, including the Ohio personal income tax, and will also be excludable from the net income base used in calculating the Ohio corporate franchise tax.

#### **APPROVAL OF LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and delivery of the Series 2010E Bonds by AMP are subject to the approving opinion of Peck, Shaffer & Williams LLP, Bond Counsel. The approving opinion of Bond Counsel, in substantially the form set forth in Appendix A-1 to this Official Statement, will be delivered with the Series 2010E Bonds.

Certain federal tax matters regarding the Series 2010E Bonds will be passed upon for AMP by Sidley Austin LLP, Federal Tax Counsel. The form of its opinion regarding the Series 2010E Bonds is set forth in Appendix A-2 to this Official Statement.

Certain legal matters will be passed upon for AMP by its General Counsel, Chester Willcox & Saxbe LLP. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP.

## **OTHER FINANCING**

On or about December 21, 2010, AMP intends to deliver its \$1,378,990,000 Combined Hydroelectric Projects Revenue Bonds, Series 2010 in three separate series to finance costs associated with the Combined Hydroelectric Projects (as defined in the Series 2010A-D Official Statement).

## **MISCELLANEOUS**

Any statements, including those incorporated by reference, in this Official Statement involving matters of opinion, estimates or forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. The Appendices attached hereto are an integral part of this Official Statement and must be read in conjunction with the foregoing material. This Official Statement is not to be construed as a contract or agreement between AMP and the purchasers or owners of the Series 2010E Bonds.

The delivery of this Official Statement has been duly authorized by the Board of Trustees of AMP.

AMERICAN MUNICIPAL POWER, INC.

By           /s/ Marc S. Gerken, P.E.            
President and Chief Executive Officer

By           /s/ Robert W. Trippe            
Senior Vice President of Finance and  
Chief Financial Officer



**PROPOSED FORM OF OPINION OF PECK, SHAFFER & WILLIAMS LLP**

December \_\_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Ladies and Gentlemen:

We have examined the transcript of proceedings relating to the issuance of \$355,035,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010E (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Bonds") issued by American Municipal Power, Inc. ("AMP") to finance capital expenditures, costs and expenses associated with the hydroelectric facility to be constructed on the Captain Anthony Meldahl Locks and Dam on the Ohio River (the "Project"), including capitalized interest on the Bonds, to fund deposits to the Parity Common Reserve Account, and to pay the costs of issuance of the Bonds. The transcript documents include executed counterparts of: (i) Resolution No. 10-10-3049, adopted by the Board of Trustees of AMP on October 25, 2010, as amended by Resolution No. 10-12-3063 adopted by the Board of Trustees of AMP on December 10, 2010 (collectively, the "Resolution"); (ii) the Power Sales Contract dated as of March 1, 2009 (the "Power Sales Contract") between AMP and 48 of its members, located in Ohio, Kentucky, Virginia and Michigan (the "Participants"); (iii) the Master Trust Indenture dated as of October 1, 2010 between AMP and U.S. Bank National Association, as trustee (the "Master Indenture"); (iv) the Fifth Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the "Fifth Supplemental Indenture," and, together with the Master Indenture, as previously supplemented, the "Indenture"); and (v) other documents executed and delivered in connection with the issuance of the Bonds. We have also examined the Constitution and laws of the State of Ohio and such other documents, certifications and records as we have deemed necessary for purposes of this opinion. We have also examined the form of the Bonds.

Based upon the examinations above referred to, we are of the opinion that, under the law in effect on the date of this opinion:

1. The Bonds have been duly authorized, executed, issued and delivered by AMP and constitute legal, valid and binding special obligations of AMP, enforceable in accordance with their terms. The principal of and interest on the Bonds are payable solely from and secured by: (a) the Gross Receipts, as defined in the Master Indenture, (b) all moneys and investments in certain funds established by the Indenture, and (c) all rights, interests and property pledged and assigned to the Trustee under the Indenture. The Bonds do not constitute a debt, or a pledge of the faith and credit of the Participants or of any political subdivision of the State of Ohio and the registered owners thereof will have no right to have excises or taxes levied by the General Assembly of the State, the

Participants or any other political subdivision of the State for the payment of debt service on the Bonds. AMP has no taxing power.

2. The Indenture has been duly authorized executed and delivered by AMP and constitutes a valid and binding obligation of AMP, enforceable in accordance with its terms.

3. Interest on the Bonds is exempt from taxes levied by the State of Ohio and its subdivisions, including the Ohio personal income tax, and also excludible from the net income base used in calculating the Ohio corporate franchise tax. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Bonds.

In giving this opinion, we have relied upon covenants and certifications of facts made by officials of AMP and others contained in the transcript which we have not independently verified. We have also relied upon the opinion of Chester, Willcox & Saxbe LLP, as general counsel to AMP, as to the matters contained therein. It is to be understood that the enforceability of the Bonds, the Indenture and all other documents relating to the issuance of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion. Capitalized terms not defined herein have the meanings given them in the Official Statement dated December 17, 2010 relating to the offering of the Bonds.

We bring to your attention the fact that our legal opinions are an expression of professional judgment and are not a guaranty of a result.

We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinions expressed herein.

Very truly yours,

PROPOSED FORM OF FEDERAL TAX OPINION OF SIDLEY AUSTIN LLP

December \_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Re: \$355,035,000 American Municipal Power, Inc. Meldahl Hydroelectric Project Revenue Bonds  
Series 2010E (Federally Taxable – Issuer Subsidy – Build America Bonds)

Ladies and Gentlemen:

We have acted as Federal Tax Counsel with respect to certain U.S. federal income tax matters relating to the issuance by American Municipal Power, Inc. (“AMP”), an Ohio non-profit corporation, of the Meldahl Hydroelectric Project Revenue Bonds Series 2010E (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Series E Bonds”). The terms of the Series E Bonds are described in detail in the Fifth Supplemental Indenture (defined below).

In addition to other features, interest on the Series E Bonds will initially be payable monthly at a short-term, adjustable rate and, unless AMP exercises its right to call the Series E Bonds in May 2011, pursuant to a remarketing procedure, interest on the Series E Bonds will convert in May 2011 to a fixed, long term-rate, payable semi-annually. At the time of conversion (the “Conversion”), holders of the Series E Bonds may tender their bonds to be remarketed and the fixed, long-term rate on the Series E Bonds will be set so as to allow the remarketing of the Series E Bonds to new holders at par. If the remarketing fails, the holders that tendered their bonds will continue to hold them and additional remarketing efforts will be made.

For purposes of rendering this opinion, we have examined such documents, proceedings and matters relating to the federal tax status of the Series E Bonds as we have deemed relevant, including certified copies of:

- (i) Resolution No. 10-10-3049, adopted on October 25, 2010, as amended by Resolution No. 10-12-3063 adopted on December 10, 2010, by the Board of Trustees of AMP authorizing the Series E Bonds (the “Authorizing Resolution”);
- (ii) the Power Sales Contract, dated as of March 1, 2009, between AMP and 48 of its members, located in Kentucky, Ohio, Michigan and Virginia (such members, the “Participants,” and such contract, the “Power Sales Contract”);
- (iii) the Master Trust Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Master Indenture”);
- (iv) the Second Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Second Supplemental Indenture”);
- (v) the Fifth Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Fifth Supplemental Indenture”);

- (vi) the Tax Certificate delivered on the date hereof by AMP (the “Tax Certificate”) in which it has made certain representations and covenants concerning current and future compliance with the Internal Revenue Code of 1986, as amended (the “Code”); and
- (vii) a form of the Certificate of each of the Participants in which each Participant is to make made certain representations and covenants concerning current and future compliance with the Code (the “Participant Certificates”).

For purposes of rendering this opinion, we have assumed that each of the Authorizing Resolution, the Power Sales Contract, the Master Indenture, the Second Supplemental Indenture and the Fifth Supplemental Indenture has been duly authorized, adopted or executed and delivered by the parties thereto and is valid and binding in accordance its terms.

We have also assumed, without independent verification, (i) the genuineness of certificates, records and other documents submitted to us and the accuracy and completeness of the statements contained therein; (ii) that all documents and certificates submitted to us as originals are accurate and complete; (iii) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (iv) that all information submitted to us, and all representations and warranties made, in the Tax Certificate, the Participant Certificates, and otherwise are accurate and complete. In addition, we have assumed and relied upon, without independent investigation, the correctness of the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, delivered in connection with the issuance of the Series E Bonds, to the effect that the Series E Bonds constitute valid and binding obligations of AMP.

We also have assumed that the transactions described are not part of another transaction or another series of transactions that would require AMP, any investor, or other participant to treat such transaction or transactions as subject to the disclosure, registration, or list maintenance requirements of sections 6011, 6111 or 6112 of the Code.

\* \* \* \* \*

To comply with certain Treasury regulations, we state that (i) this opinion is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding U.S. federal tax penalties, and (ii) if any part of this opinion is used or referred to by others in promoting, marketing or recommending investment in the Series E Bonds, then this opinion should be construed as written in connection with such promotion or marketing and any taxpayer considering investment in the Series E Bonds should be advised to seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

\* \* \* \* \*

On the basis of the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant, we are of the opinion that, under current law, assuming compliance by AMP with its covenants in the Authorizing Resolution and the Tax Certificate, and requirements of the Code, regarding the use, expenditure and investment of proceeds of the Series E Bonds and the timely payment of certain investment earnings to the United States, and compliance by the Participants with the covenants contained in the Power Sales Contract and the Participant Certificates and the applicable requirements of the Code, as of the issue date of the Series E Bonds, the Series E Bonds will constitute “qualified bonds” within the meaning of Section 54AA(g) of the Code and are eligible for the credit payable by the federal government under Section 6431 of the Code (the “Refundable Credit”) and will continue to be “qualified bonds” after the Conversion. Failure by AMP or the Participants to comply with such covenants and requirements, or a failure to timely request the Refundable Credit with respect to each interest payment of the Series E Bonds, may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the Series E Bonds to cease to be treated as qualified bonds either

prospectively from the date of determination or retroactively to their date of issuance.

Other than as described herein, we have not addressed, and are not opining on any tax matters relating to the Series E Bonds. Further, we express no opinion on the effect of any change to any document pertaining to the Series E Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the qualification of the Series E Bonds as qualified bonds under Section 54AA(g) of the Code or their eligibility for the credit payable by the federal government under Section 6431 of the Code.

In addition, we express no opinion with respect to the procedures regarding, and the availability of funds with respect to, the payment of the Refundable Credit by the federal government. Further, there is no assurance that the federal government (a) will continue to pay the Refundable Credit on a timely basis or for the term of the Series E Bonds, (b) will not reduce the Refundable Credit during the term of the Series E Bonds, and (c) will not attempt to offset the Refundable Credit against another amount the federal government asserts is owed by AMP to the federal government.

The opinions expressed herein are based on an analysis of current laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

You have received the opinion of Peck, Shaffer & Williams LLP regarding the State of Ohio tax consequences of ownership of or receipt or accrual of interest on the Series E Bonds, and we express no opinion as to such matters.

We bring to your attention the fact that our legal opinions and conclusions are an expression of professional judgment and are not a guarantee of a result. Our legal opinions are not binding on the Internal Revenue Service ("IRS") and there can be no guarantee that the IRS will not challenge our legal opinions or that a court will not agree with the IRS if it does.

Very truly yours

*In the opinion of Sidley Austin LLP, Federal Tax Counsel, assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series 2010D Tax-Exempt Bonds will not be includable in gross income of the owners thereof for federal income tax purposes. Interest on the Series 2010D Tax-Exempt Bonds will not be treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations and the interest thereon will not be includable in the computation of the alternative minimum tax on corporations imposed by the Code. Interest on the Series 2010A Taxable Bonds, the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs) will be includable in gross income of the owners thereof for the federal income tax purposes. In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, interest on all the Series 2010A-D Bonds will be exempt from certain Ohio taxes. See "TAX MATTERS" herein.*

**\$330,065,000**

**AMERICAN MUNICIPAL POWER, INC.**  
**MELDAHL HYDROELECTRIC PROJECT REVENUE BONDS**

*consisting of*

**\$45,495,000 SERIES 2010A (FEDERALLY TAXABLE)**

**\$260,000,000 SERIES 2010B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD AMERICA BONDS)**

**\$20,000,000 SERIES 2010C (FEDERALLY TAXABLE — ISSUER SUBSIDY — NEW CLEAN RENEWABLE ENERGY BONDS)**

**\$4,570,000 SERIES 2010D (TAX-EXEMPT)**

**DATED: DATE OF ISSUANCE**

**DUE: FEBRUARY 15, AS SHOWN ON THE INSIDE COVER PAGE**

The Series 2010A-D Bonds will be issued by American Municipal Power, Inc. ("AMP") in book-entry only form through The Depository Trust Company, which will act as securities depository. Purchases of the Series 2010A-D Bonds will be made in book-entry form through DTC participants in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest on the Series 2010A-D Bonds will be made to beneficial owners by DTC through its participants. See APPENDIX G hereto. The Series 2010A-D Bonds will bear interest at the rates, and mature on the dates, as described on the inside cover hereof. Interest on the Series 2010A-D Bonds will accrue from their Issuance Date and will be paid each February 15 and August 15, commencing on February 15, 2011 as more fully described herein.

The Series 2010A-D Bonds are subject to redemption prior to maturity as described herein.

The Series 2010A-D Bonds are being issued and will be secured under the Master Trust Indenture, as supplemented by four supplemental indentures, each dated as of October 1, 2010 and between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee. The Master Trust Indenture, as so supplemented and as further supplemented and amended from time to time, is herein called the "Indenture".

The Series 2010A-D Bonds are being issued primarily to (i) make deposits to the Construction Accounts under the Indenture to finance capital expenditures, costs and expenses associated with a hydroelectric facility to be constructed on the Captain Anthony Meldahl Locks and Dam on the Ohio River (the "Project"); (ii) repay draws on a line of credit made to finance certain expenditures relating to the Project; (iii) fund capitalized interest on the Series 2010 Bonds; (iv) fund deposits to the Parity Common Reserve Account and three Special Reserve Accounts; and (v) pay the costs of issuance of the Series 2010A-D Bonds.

AMP has entered into a Power Sales Contract dated as of March 1, 2009 (the "Power Sales Contract") with 48 municipalities in the States of Kentucky, Ohio, Michigan and Virginia (the "Participants"). Each Participant is a member of AMP and owns and operates its own electric system (each, an "Electric System"). Under the terms of the Power Sales Contract, each Participant agrees to pay from the revenues of its Electric System, on a take-or-pay basis, for its respective share of electric power and energy from the Project.

The Series 2010A-D Bonds are special and limited obligations of AMP payable from and secured solely by amounts pledged therefor under the Indenture, which includes payments to be made to AMP by the Participants pursuant to the Power Sales Contract.

**THE SERIES 2010A-D BONDS ARE NOT OBLIGATIONS OF OR GUARANTEED BY THE STATE OF KENTUCKY, OHIO, MICHIGAN OR VIRGINIA, THE MEMBERS OF AMP, THE PARTICIPANTS OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF KENTUCKY, OHIO, MICHIGAN OR VIRGINIA, OR ANY POLITICAL SUBDIVISION, INCLUDING THE MEMBERS OF AMP AND THE PARTICIPANTS, IS PLEDGED FOR THE PAYMENT OF THE SERIES 2010A-D BONDS. AMP HAS NO TAXING POWER.**

*The Series 2010A-D Bonds are offered, subject to prior sale, when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Peck, Shaffer & Williams LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for AMP by its General Counsel, Chester Willcox & Saxbe, LLP, and by its Federal Tax Counsel, Sidley Austin LLP, and for the Underwriters by Nixon Peabody LLP. It is expected that delivery of the Series 2010A-D Bonds will be made on or about December 7, 2010, through the facilities of DTC.*

**Wells Fargo Securities**

**BofA Merrill Lynch**  
**Morgan Stanley**  
**Fifth Third Securities**

**BMO Capital Markets**

**KeyBank Capital Markets**  
**SunTrust Robinson Humphrey Inc.**  
**The Huntington Investment Company**

Purchases of Series 2010A-D Bonds involve certain investment risks as described herein. This cover page is only a brief and general summary. Investors must read the entire Official Statement to obtain essential information for making an informed investment decision. This Official Statement is dated December 2, 2010 and the information contained herein speaks only as of that date.

**MATURITY SCHEDULE, INTEREST RATES, PRICES OR YIELDS, AND CUSIPs**

**\$330,065,000**

**AMERICAN MUNICIPAL POWER , INC.**

**MELDAHL HYDROELECTRIC PROJECT REVENUE BONDS**

**\$45,495,000 SERIES 2010A (FEDERALLY TAXABLE)**

<u>DUE FEBRUARY 15</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>PRICE</u>	<u>CUSIP<sup>(1)</sup></u>
2016	\$7,745,000	4.442%	100%	02765UDP6
2017	8,090,000	4.742	100	02765UDQ4
2018	8,470,000	5.072	100	02765UDR2
2019	8,905,000	5.272	100	02765UDS0
2020	9,375,000	5.472	100	02765UDT8
2021	2,910,000	5.672	100	02765UDU5

**\$260,000,000 SERIES 2010B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD  
AMERICA BONDS)**

<u>DUE FEBRUARY 15</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>YIELD</u>	<u>CUSIP<sup>(1)</sup></u>
2035	\$10,000,000	7.00%	100%	02765UDW1

**\$250,000,000 7.499% Term Bonds due February 15, 2050 — Price 100% CUSIP<sup>(1)</sup> 02765UDV3**

**\$20,000,000 SERIES 2010C (FEDERALLY TAXABLE — ISSUER SUBSIDY — NEW CLEAN  
RENEWABLE ENERGY BONDS)**

**\$20,000,000 6.849% Term Bonds due February 15, 2028 — Price 100% CUSIP<sup>(1)</sup> 02765UDX9**

**\$4,570,000 SERIES 2010D (TAX-EXEMPT)**

<u>DUE FEBRUARY 15</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>YIELD</u>	<u>CUSIP<sup>(1)</sup></u>
2021	\$4,570,000	5.00%	4.29%	02765UDY7

<sup>(1)</sup> CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and AMP does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2010A-D Bonds as a result of various subsequent actions including, but not limited to, a defeasance in whole or in part of the Series 2010A-D Bonds.

## AMERICAN MUNICIPAL POWER, INC.

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Celina	Rick Bachelor	Safety Services Director, City of Celina
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Cleveland	Ivan Henderson	Commissioner, Cleveland Public Power
Coldwater, MI	Paul Beckhusen	Director, Coldwater Board of Public Utilities
Cuyahoga Falls	Jeff McHugh	Assistant Superintendent, Cuyahoga Falls Electric Dep't
Ephrata, PA	Gary Nace	Borough Manager, Borough of Ephrata
Front Royal, VA	Joe Waltz	Director, Energy Resource Management, Town of Front Royal
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Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. AMP does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The Underwriters have provided the following sentence for inclusion in this Official Statement: They have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but they do not guarantee the accuracy or completeness of such information.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by AMP or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The Series 2010A-D Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other government entity or agency has or will have passed upon the adequacy of this Official Statement or approved the Series 2010A-D Bonds for sale.

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In making an investment decision, investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. No commission or authority has confirmed the accuracy or determined the adequacy of this document.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE SERIES 2010A-D BONDS. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT**  
**\$330,065,000**  
**AMERICAN MUNICIPAL POWER, INC.**  
**MELDAHL HYDROELECTRIC PROJECT REVENUE BONDS**

**\$45,495,000 Series 2010A (Federally Taxable)**  
**\$260,000,000 Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds)**  
**\$20,000,000 Series 2010C (Federally Taxable – Issuer Subsidy –**  
**New Clean Renewable Energy Bonds)**  
**\$4,570,000 Series 2010D (Tax-Exempt)**

**INTRODUCTION**

**Purpose**

This Official Statement, which includes the cover and inside cover pages and appendices attached hereto, contains information concerning (a) American Municipal Power, Inc. (“AMP”), an Ohio nonprofit corporation established pursuant to the laws of the State of Ohio, (b) AMP’s Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable) (the “*Series 2010A Taxable Bonds*”), Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “*Series 2010B Taxable Bonds (BABs)*”), Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewable Energy Bonds) (the “*Series 2010C Taxable Bonds (New CREBs)*”) and Series 2010D Bonds (Tax-Exempt) (the “*Series 2010D Tax-Exempt Bonds*”) and (c) the Meldahl Hydroelectric Project (the “*Project*”). The Series 2010A Taxable Bonds, the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs) are referred to herein collectively as the “*Series 2010 Taxable Bonds*” and the Series 2010 Taxable Bonds and the Series 2010D Bonds (Tax-Exempt) are referred to herein collectively as the “*Series 2010A-D Bonds*”.

The Series 2010A-D Bonds are being issued by AMP primarily to (i) make deposits to the 2010A, 2010B, 2010C and 2010D Construction Accounts under the Indenture (as hereinafter defined) to finance capital expenditures, costs and expenses associated with the acquisition, construction and permitting of the Project; (ii) repay draws on a line of credit made to finance certain expenditures relating to the Project; (iii) fund capitalized interest on the Series 2010A-D Bonds and the Series 2010E Bonds (hereinafter mentioned) through six months after the estimated in-service date of the Project; (iv) fund deposits to the Parity Common Reserve Account and three Special Reserve Accounts; and (v) pay the costs of issuance of the Series 2010A-D Bonds and the costs of remarketing the Series 2010E Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**AUTHORIZATION FOR SERIES 2010A-D BONDS**

The Series 2010A-D Bonds will be issued and secured under the Master Trust Indenture, dated as of October 1, 2010 (the “*Master Trust Indenture*”), entered into between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee (the “*Trustee*”), as supplemented by the First Supplemental Indenture (the “*First Supplemental Indenture*”), the Second Supplemental Indenture (the “*Second Supplemental Indenture*”), the Third Supplemental Indenture (the “*Third Supplemental Indenture*”) and the Fourth Supplemental Indenture (the “*Fourth Supplemental Indenture*” and, together with the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, the “*Series 2010 Supplemental Indentures*”), each dated as of October 1, 2010 and between AMP and the Trustee. The Master Trust Indenture, as so supplemented and further supplemented and amended from time to time, is herein called the “*Indenture*”. The Series 2010A-D Bonds and any additional bonds

issued under the Indenture on a parity with the Series 2010A-D Bonds (collectively, with the Series 2010A-D Bonds, “*Bonds*”) and any Parity Debt are herein called collectively “*Parity Obligations*”. The Board of Trustees of AMP by a resolution adopted on October 25, 2010 authorized the issuance and sale of the Series 2010A-D Bonds and approved the form and authorized the execution and delivery of the Master Trust Indenture and the Series 2010 Supplemental Indentures.

## **AMP**

AMP was formed under Ohio Revised Code Chapter 1702 as a nonprofit corporation in 1971. Under applicable law, AMP has perpetual existence and the duration of its existence is not otherwise limited by its certificate of incorporation or by any agreement with its member municipalities (the “*Members*”).

AMP operates on a cooperative nonprofit basis for the mutual benefit of its Members, all but one of which owns and/or operates a municipal electric utility system (each, an “*Electric System*” and collectively, the “*Electric Systems*”). As of November 1, 2010, AMP had 128 Members – 82 municipalities in Ohio, 30 boroughs in Pennsylvania, six cities in Michigan, five municipalities in Virginia, three cities in Kentucky and two cities in West Virginia.

AMP has obtained letters from the Internal Revenue Service (“*IRS*”) determining that AMP qualifies as a Section 501(c)(12) corporation under the Internal Revenue Code of 1986, as amended (the “*Code*”), and its income is therefore exempt from federal income tax, provided at least 85% of AMP’s total revenue consists of amounts collected from its Members for the sole purpose of meeting losses and expenses (which include debt service). AMP believes that it has met the requirements for maintenance of its 501(c)(12) status each year since it first received the ruling. See “AMERICAN MUNICIPAL POWER, INC.” and “TAX MATTERS”.

AMP has also received private letter rulings to the effect that it may issue on behalf of its Members obligations the interest on which is excludible from the gross income of holders thereof for federal income tax purposes and that it is a wholly-owned instrumentality of its Members with the consequence that use by AMP of tax-exempt financed facilities will not result in private use under the Code. See “AMERICAN MUNICIPAL POWER, INC. – Tax Status” and “TAX MATTERS”.

## **THE PROJECT**

The Project consists of a three unit hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers (the “*Army Corps*”), and of related equipment and associated transmission facilities. When the Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a member of AMP and a Participant (as hereinafter defined), and AMP hold, as co-licensees, the Federal Energy Regulatory Commission (“*FERC*”) license necessary to construct and operate the Project.

In March 2009, AMP awarded Voith Siemens Hydro Power Generation (“*Voith Hydro*”) a contract to manufacture the turbines and generators for the Project. AMP received the Section 404 Permit (as hereinafter defined) for the Project from the Army Corps on April 8, 2010. Receipt of the Section 404 Permit removed the last material regulatory condition to the commencement of construction of the Project. AMP broke ground on the Project on June 29, 2010. AMP anticipates the Project will enter commercial operation on or about July 15, 2014.

See “– OWNERSHIP AND OPERATION OF THE PROJECT” below, “THE PROJECT – BACKGROUND - *Contractual Arrangements Between AMP and Hamilton*” and APPENDIX H-1 – “CONSULTING ENGINEER’S REPORT”.

## **OWNERSHIP AND OPERATION OF THE PROJECT**

Subsequent to Hamilton’s receipt of the FERC license for the Project in June 2008, AMP and Hamilton entered into negotiations to jointly develop, construct and operate the Project. In March 2009, these negotiations culminated in the execution of several agreements (the “*AMP-Hamilton Agreements*”) relating to the Project and the Greenup Hydroelectric Project, an existing run-of-the-river hydroelectric facility located on the Ohio River, currently owned and operated by Hamilton. Under the terms of the AMP-Hamilton Agreements, AMP has committed to finance the development and construction of the Project and Hamilton will operate the Project. AMP has agreed to sell, and Hamilton has agreed to purchase, 51.4% of the output of the Project pursuant to the terms of the Power Sales Contract (as hereinafter defined).

The Project will be owned by Meldahl, LLC, a single-member, Delaware not-for-profit, limited liability company organized for the sole purpose of owning, maintaining and operating the Project (“*Meldahl, LLC*”). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the “*Meldahl Board*”). There are also two Independent Directors, which are appointed by Hamilton. The Meldahl Board has exclusive power to manage the affairs of Meldahl, LLC except for certain matters which require the unanimous consent of all of the Directors, including the Independent Directors. See APPENDIX C – “Summary of Certain Provisions of the AMP-Hamilton Agreements”.

Under the terms of the Power Sales Contract, dated as of March 1, 2009 (the “*Power Sales Contract*”) between AMP and 48 Members in Kentucky, Michigan, Ohio and Virginia (the “*Participants*”), AMP has agreed to sell, and the Participants have agreed to purchase, the available capacity and energy of the Project. The Participants have subscribed for 100% of the estimated aggregate generating capacity of the Project. See APPENDIX A – “The Participants”.

## **OTHER**

This Official Statement includes information regarding and descriptions of AMP, the Project, the Participants and the Series 2010A-D Bonds, and summaries of certain provisions of the Indenture and the Power Sales Contract. Such descriptions and summaries do not purport to be complete or definitive, and such summaries are qualified by reference to such documents, copies of which may be obtained from AMP or the Underwriters. Descriptions of the Indenture, the Series 2010A-D Bonds, the Power Sales Contract and AMP-Hamilton Agreements are qualified by reference to bankruptcy laws affecting the remedies for the enforcement of the rights and security provided therein and the effect of the exercise of police and regulatory powers by federal and state authorities.

## **PLAN OF FINANCE**

### **SERIES 2010A-D BONDS**

AMP intends to finance all of the estimated costs of the Project from proceeds of the Series 2010A-D Bonds and from the proceeds of its \$355,035,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010E (Federally Taxable – Issuer Subsidy - Build America Bonds) (the “*Series 2010E Bonds*”) described hereinafter under “– Series 2010E Bonds.” AMP estimates that the capital costs associated with the financing, development, acquisition, construction, equipping and placing into service of the Project will be approximately \$685.4 million, which includes capitalized interest on all Series 2010A-D Bonds and the estimated capitalized interest on the Series 2010E Bonds to and including

January 15, 2015 (a date that is six months past the July 15, 2014 estimated in service date of the Project) deposits to the Parity Common Reserve Account, Special Reserve Accounts for the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs) (collectively, the “*Reserve Accounts*”), a Special Reserve Account for the Series 2010E Bonds and costs of issuance.

#### **SERIES 2010E BONDS**

Prior to December 31, 2010, AMP intends to issue approximately \$355,035,000 of the Series 2010E Bonds. The Series 2010E Bonds will be issued pursuant to and secured by the Master Trust Indenture as Parity Obligations, will have the benefit of the Parity Common Reserve Account and will be separately secured by a Special Reserve Account funded from the proceeds of the Series 2010A Taxable Bonds in an amount equal to the 35% of the estimated Interest Requirement (based on an assumed long-term rate for so long as the Series 2010E Bonds bear interest at a variable rate) for the current semi-annual period ending February 15 or August 15.

*The Series 2010E Bonds will bear interest a variable interest rate, determined by reference to one-month LIBOR plus an established spread, to and including June 1, 2011, subject to the exercise of AMP’s prior right of redemption. On June 1, 2011, the Series 2010E Bonds will be remarketed on a best-efforts basis to bear interest at a fixed rate, or fixed rates, determined by the remarketing agent as the rate or rates necessary to remarket the Series 2010E Bonds at a price of par (the “Market Clearing Rate”). The Series 2010E Bonds will be stated to mature on February 15, 2050, subject to prior right of redemption and mandatory sinking fund redemption as shown in the Debt Service Requirements table.*

In the event that the remarketing agent fails to establish the Market Clearing Rate on or before June 1, 2011, the Series 2010E Bonds will continue to bear interest at a variable rate, which rate will increase, through a stepped increase of the spread over LIBOR, until the Market Clearing Rate is determined. AMP will have the option to redeem the Series 2010E Bonds at par plus accrued interest on May 12, 2011. In the event that AMP has not entered into a firm underwriting agreement with the remarketing agent on or before May 12, 2011, AMP anticipates that AMP would undertake to refund the Series 2010E Bonds with (i) the proceeds of an issue of long-term, fixed rate, tax-exempt Bonds, (ii) the proceeds of an issue of short-term, variable rate tax-exempt Bonds or (iii) a draw on its Line of Credit (hereinafter mentioned), depending upon market conditions and other applicable circumstances. AMP’s decision with respect to the remarketing or refunding of the Series 2010E Bonds is subject to a number of factors which cannot be predicted at this time.

*The Series 2010E Bonds are a separate issue of Bonds and are not offered by this Official Statement. The issuance of the Series 2010E Bonds is not a condition precedent to the issuance of the Series 2010A-D Bonds offered by this Official Statement. AMP can offer no assurance that the Series 2010E Bonds will be issued as contemplated by this Official Statement.*

#### **CREDIT AGREEMENT**

AMP is party to a five-year Credit Agreement dated as of September 24, 2007, with a syndicate of commercial banks led by J.P. Morgan Chase Bank, National Association, with a total available line, as last amended, of \$750 million (the “*Line of Credit*”). AMP may borrow directly on the Line of Credit or request the issuance of letters of credit against the Line of Credit in support of its interim financing arrangements. AMP also uses its Line of Credit, for among other purposes, to provide working capital, to post collateral when required under power purchase agreements, and to pay development costs and provide interim financing for projects prior to their permanent financing. As of December 2, 2010, AMP had drawn approximately \$116 million on its Line of Credit to pay costs of the Project and will repay all amounts drawn on the Line of Credit from proceeds of the Series 2010A-D Bonds.

## **COMMERCIAL PAPER PROGRAM**

On January 22, 2008, AMP initiated a tax-exempt CP program (the “*Initial CP Program*”), with an authorized par amount of \$350 million, secured by a letter of credit issued under its Line of Credit. On February 12, 2009, AMP’s Board of Trustees resolved to increase the authorized par amount of the Initial CP Program to \$400 million. On September 24, 2009, AMP replaced its Initial CP Program with its second tax-exempt CP program (the “*Second CP Program*”), with an authorized par amount of \$450 million, secured by a letter of credit issued under its Line of Credit. There is currently no CP outstanding under the Second CP Program.

## **INVESTMENT OF PROCEEDS**

AMP may seek competitive proposals for “delivery versus payment” forward delivery agreements or portfolios of certain Investment Obligations from qualified financial institutions for the investment of funds credited to the Series 2010A-D Construction Accounts, the Capitalized Interest Subaccounts, the Parity Common Reserve Account and two Special Reserve Accounts. AMP’s decision to seek and accept any such proposals may be made on or after the date of pricing of the Series 2010A-D Bonds and will be subject to the acceptability of the terms and conditions of such proposals, market conditions and other factors.

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## ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2010A-D BONDS

The sources and uses of the proceeds of the Series 2010A-D Bonds are estimated to be as follows:

SOURCES:	SERIES 2010A TAXABLE BONDS	SERIES 2010B TAXABLE BONDS (BABs)	SERIES 2010C TAXABLE BONDS (NEW CREBs)	SERIES 2010D TAX- EXEMPT BONDS	TOTAL SERIES 2010 BONDS
Par Amount	\$45,495,000	\$260,000,000	\$20,000,000	\$4,570,000	\$330,065,000
Offering Premium	-	-	-	265,243	265,243
Total Sources	\$45,495,000	\$260,000,000	\$20,000,000	\$4,835,243	\$330,330,243
USES:					
Deposits to/for Construction Accounts <sup>1</sup>					
2010A	\$ 7,600,784	-	-	-	\$ 7,600,784
2010B	-	\$194,565,482	-	-	194,565,482
2010C	-	-	\$19,811,980	-	19,811,980
2010D	-	-	-	\$4,500,000	4,500,000
Capitalized Interest					
Series 2010A Bonds <sup>2</sup>	8,534,382	-	-	-	8,534,382
Series 2010B Bonds <sup>2</sup>	6,192,172	44,323,141	-	-	50,515,313
Series 2010C Bonds <sup>2</sup>	300,672	2,190,584	-	-	2,491,256
Series 2010D Bonds <sup>2</sup>	109,653	798,501	-	-	908,154
Series 2010E Bonds <sup>2</sup>	8,477,226	-	-	-	8,477,226
Parity Common Reserve Account <sup>3</sup>	5,411,675	15,640,635	-	290,870	21,343,180
2010B BABs Interest Subsidy Reserve <sup>4</sup>	3,403,313	-	-	-	3,403,313
2010C CREBs Interest Subsidy Reserve <sup>5</sup>	378,000	-	-	-	378,000
2010E BABs Interest Subsidy Reserve <sup>4</sup>	4,659,213	-	-	-	4,659,213
Costs of Issuance <sup>6</sup>	427,911	2,481,657	188,020	44,373	3,141,961
Total Uses	\$45,495,000	\$260,000,000	\$20,000,000	\$4,835,243	\$330,330,243

Numbers may not add to totals due to rounding.

<sup>1</sup> Includes amounts to be used on or about the date of closing to pay amounts drawn on the Line of Credit to pay Project costs and an estimated remarketing fee for the Series 2010E Bonds.

<sup>2</sup> AMP intends to net-fund from proceeds of the Series 2010A-D Bonds the Capitalized Interest Subaccounts of the Bond Subfund in an amount to be sufficient, with investment earnings on the Capitalized Interest Subaccounts and the Parity Common Reserve Account and, in the case of the Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs), the Federal Subsidies and investment earnings on the Special Reserve Accounts, to pay interest on the Series 2010A-D Bonds through January 15, 2015, a date which is six months after the estimated in service date of the Project (July 15, 2014). The proceeds of the Series 2010B Taxable Bonds (BABs) deposited to the 2010B Capitalized Interest Subaccount and the Series 2010D Tax-Exempt Bonds deposited to the 2010D Capitalized Interest Subaccount will be in amounts sufficient to pay interest on the related series of Series 2010 Bonds through July 15, 2014. A portion of the proceeds of the Series 2010A Taxable Bonds will be used to pay (a) capitalized interest on the Series 2010B Taxable Bonds (BABs), the Series 2010D Tax-Exempt Bonds and the Series 2010E Bonds (using an assumed rate equal to that of the Series 2010B Taxable Bonds (BABs)) allocable to the period from July 15, 2014 through January 15, 2015 and (b) all of the capitalized interest on the Series 2010C Taxable Bonds (CREBs) through January 15, 2015.

<sup>3</sup> Equal the Parity Common Reserve Requirement (maximum annual debt service, net of the Federal Subsidies) for the Series 2010 Bonds. Assumed interest rate of 3.00% on the Series 2010E Bonds through June 1, 2011 and 7.499%, an interest rate equal to that on the Series 2010B Taxable Bonds (BABs), thereafter.

<sup>4</sup> Equal to 35% of the maximum Interest Requirement during any Interest Period for the Series 2010B Taxable Bonds (BABs) and the Series 2010E Bonds (using interest rate assumptions detailed above).

<sup>5</sup> Equal to the maximum New CREBs Federal Subsidy during any Interest Period for the Series 2010C Taxable Bonds (New CREBs).

<sup>6</sup> Includes underwriting discount and rating agency, trustee, consultant and legal fees and other expenses related to the issuance of the Series 2010A-D Bonds.

## ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2010E BONDS

AMP expects to apply the proceeds of the Series 2010E Bonds, net of the underwriting discount, as follows:

### USES:

Deposit to 2010E Construction Account <sup>1</sup>	\$331,670,124
Deposit Parity Common Reserve Account <sup>2</sup>	<u>21,357,587</u>
Total Uses	<u>\$353,027,711</u>

AMP plans to capitalize the interest on the Series 2010E Bonds for six months after the July 15, 2014 scheduled in service date of the Project from proceeds of the Series 2010A Bonds.

## SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A-D BONDS

The Series 2010A-D Bonds are payable from and secured solely by amounts pledged therefor under the Indenture. The Series 2010A-D Bonds are equally and ratably secured and are payable solely from the Gross Receipts (subject to the provisions of the Master Trust Indenture which permit AMP to apply such Gross Receipts to the payment of AMP Operating Expenses) and certain amounts held under the Indenture. The Gross Receipts include payments made by the Participants under the Power Sales Contract (excluding amounts paid for transmission service and amounts representing administration fees, which are retained by AMP), and the investment income on moneys and securities held by the Trustee in certain subfunds, accounts and subaccounts established pursuant to the Indenture.

AMP will designate the Series 2010B Taxable Bonds (BABs) as “Build America Bonds” for purposes of the Recovery Act. See “THE SERIES 2010A-D BONDS – Designation of Series 2010B Taxable Bonds (BABs) as ‘Build America Bonds’” for a more detailed discussion of such designation. AMP expects to receive semi-annually cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series 2010B Taxable Bonds (BABs) (the “*BABs Federal Subsidy*”).

In addition, pursuant to the Hiring Incentives to Restore Employment Act (the “*HIRE Act*”), AMP will elect to receive semi-annually cash subsidy payments equal to 70% of interest payable on the Series 2010C Taxable Bonds (New CREBs) if the amount of such interest were determined by reference to the applicable tax credit rate under Section 54A(b)(3) of the Internal Revenue Code, as amended (the “*New CREBs Federal Subsidy*” and, together with the BABs Federal Subsidy, the “*Federal Subsidies*”). The exact percentage rate of the New CREBs Subsidy was established on the date that AMP and the Underwriters executed the Purchase Contract for the Series 2010A-D Bonds. See “UNDERWRITING.”

Under the applicable Supplemental Indenture, AMP will covenant to file timely the required documents with the Internal Revenue Service so that the Trustee may receive the Federal Subsidies directly on or before each Interest Payment Date for the Series 2010B Taxable Bonds (BABs) and Series

<sup>1</sup> AMP intends to fund capitalized interest on the Series 2010E Bonds by transferring amounts from the 2010E Construction Account, together with allocable investment earnings transferred from the Parity Common Reserve Account and the 2010E BABs Interest Subsidy Reserve, to pay interest on the Series 2010E Bonds through July 15, 2014. A portion of the proceeds of the Series 2010A Bonds will be used to pay capitalized interest on the Series 2010E Bonds allocable to the period from July 15, 2014 through January 15, 2015.

<sup>2</sup> Such deposit, together with amounts to be deposited in the Parity Common Reserve Account from the proceeds of the Series 2010 A-D Bonds, shall equal Coincidental MADS on the PCRA-Secured Parity Obligations. For purposes of calculating the Debt Service Requirements for the Series 2010E Bonds, the schedule of Sinking Fund Requirements shown on pages 16 and 17 in this Official Statement was used to determine the Principal Requirements and an assumed interest rate of 3.00% was used to calculate the Interest Requirement through June 1, 2011, with an assumed interest rate of 7.499% thereafter.

2010C Taxable Bonds (New CREBs). AMP will pledge the BABs Federal Subsidy solely to the payment of interest on the Series 2010B Taxable Bonds (BABs) and the New CREBs Federal Subsidy solely to payment of interest on the Series 2010C Taxable Bonds (New CREBs). The payments of the Federal Subsidies are not pledged to the payment of other Bonds, including the Series 2010A Taxable Bonds and the Series 2010D Tax-Exempt Bonds. Moreover, the BABs Federal Subsidy is not pledged to the payment of the Series 2010C Taxable Bonds (New CREBs), and the New CREBs Federal Subsidy is not pledged to the payment of the Series 2010B Taxable Bonds (BABs). See APPENDIX E – “Summary of Certain Provisions of the Indenture – *Covenants*” for a description effect of such treatment of the Federal Subsidies on certain covenants made therein.

THE SERIES 2010A-D BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF AMP PAYABLE SOLELY FROM THE REVENUES, MONEYS, SECURITIES AND FUNDS PLEDGED THEREFOR IN THE INDENTURE. THE PAYMENT OF THE SERIES 2010A-D BONDS IS NOT GUARANTEED BY AMP, ITS MEMBERS OR THE PARTICIPANTS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE MEMBERS, THE PARTICIPANTS, THE STATE OF KENTUCKY, MICHIGAN, OHIO OR VIRGINIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF IS PLEDGED FOR THE PAYMENT OF THE SERIES 2010A-D BONDS. AMP HAS NO TAXING POWER.

## **THE INDENTURE**

Under the Master Trust Indenture, the pledge of the Gross Receipts to the Series 2010A-D Bonds is subject to the provisions permitting AMP first to apply such Gross Receipts to the payment of AMP Operating Expenses. AMP Operating Expenses generally will include all of AMP’s costs and expenses reasonably related to the operating and maintenance of the Project and the satisfaction of AMP’s obligations pursuant to the Power Sales Contract. See APPENDIX E – “Summary of Certain Provisions of the Indenture – *Definitions*” for the definition of AMP Operating Expenses.

The applicable Supplemental Indentures authorizing the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs) will in effect provide a credit for the scheduled amount of each Federal Subsidy payment against the computation of debt service on the Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs), respectively, such that for the calculation of “*Debt Service Requirement*” as used to determine the Parity Common Reserve Requirement, capitalized interest on the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs), the rate covenant and the test for the issuance of additional Bonds, the amount of the Federal Subsidy payments scheduled to be received in the relevant period will be excluded from the relevant calculation of debt service for such period. See “DEBT SERVICE REQUIREMENTS” for the amounts of the scheduled payments of the Federal Subsidies payments and APPENDIX E – “Summary of Certain Provisions of the Indenture – *Definitions*” for the definition of “Debt Service Requirements.”

For a description of the subfunds, accounts and subaccounts established pursuant to the Indenture, as well as other provisions of the Indenture, see APPENDIX E – “Summary of Certain Provisions of the Indenture.”

## **PARITY COMMON RESERVE ACCOUNT**

Pursuant to the Indenture, all the Series 2010A-D Bonds are secured by amounts on deposit in the Parity Common Reserve Account of the Bond Subfund, including the investments, if any, thereof, which amounts are pledged to the Trustee as additional security for the payment of the principal of, and interest on, and premium, if any, on such Bonds. AMP may elect to secure additional Parity Obligations with amounts held in the Parity Common Reserve Account (the Series 2010A-D Bonds and any other Parity

Obligations having the benefit of the Parity Common Reserve Account, collectively, “PCRA-Secured Parity Obligations”).

Under the Indenture, AMP is required to deposit and maintain an amount equal to the Parity Common Reserve Requirement in the Parity Common Reserve Account. The Parity Common Reserve Requirement is defined in the Indenture, as of any date of calculation, as an amount in respect of the outstanding PCRA-Secured Parity Obligations, including the Series 2010A-D Bonds, equal to the least of (i) the maximum Debt Service Requirements for such Parity Obligations in any Fiscal Year (“MADS”), (ii) 125% of the average annual Debt Service Requirements for such outstanding Parity Obligations (“125% AADS”), and (iii) 10% of the original principal amount of such Parity Obligations, provided that if a Series of such Tax Exempt Parity Obligations has more than a de minimis amount of original issue discount or original issue premium, as described in Treasury Regulation Section 1-148-1(b), the issue price of such Parity Obligations is substituted for the principal amount of such Parity Obligations. Amounts held in the Parity Common Reserve Account are to be applied to make payment of the principal of, sinking fund redemption price of, or interest on, PCRA-Secured Parity Obligations, including the Series 2010A-D Bonds, in the event that amounts on deposit in the Bond Subfund are not sufficient therefor. AMP will, from the proceeds of the sale of the Series 2010A-D Bonds, fund the Parity Common Reserve Account in an amount equal to the Parity Common Reserve Requirement for the Series 2010A-D Bonds. As of the date of issuance of the Series 2010A-D Bonds, the Parity Common Reserve Requirement will be in the amount of \$21,343,180, which is equal to 125% AADS on the Series 2010A-D Bonds (calculated net of the scheduled payments of the Federal Subsidies). If the Series 2010E Bonds are issued as contemplated in this Official Statement, the Parity Common Reserve Requirement will increase to approximately \$41 million (calculated net of the scheduled payments of all federal subsidies) on the Series 2010 Bonds. See APPENDIX E – “Summary of Certain Provisions of the Indenture” for a description of the Parity Common Reserve Account and the Parity Common Reserve Account Requirement.

Additional Parity Obligations, including additional Bonds, may be secured by the Parity Common Reserve Account or by a Special Reserve Account or may have no debt service reserve. If AMP undertakes to issue additional PCRA-Secured Parity Obligations, AMP may do so only if the amount to the credit of the Parity Common Reserve Account immediately following their issuance shall be at least equal to the Parity Common Reserve Account Requirement.

#### **SPECIAL RESERVE ACCOUNTS FOR THE SERIES 2010B TAXABLE BONDS (BABs) AND SERIES 2010C BONDS (NEW CREBs)**

As permitted by the Indenture, two Special Reserve Accounts, the 2010B BABs Interest Subsidy Reserve Account and the 2010C CREBs Interest Subsidy Reserve Account, will be created under the applicable Supplemental Indentures authorizing the Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs), respectively. Amounts deposited to such Special Reserve Accounts will be pledged to the Trustee under the applicable Supplemental Indentures to pay interest on the related Series 2010A-D Bonds in the event that the applicable Federal Subsidy is not received by the Trustee on a timely basis or the amount of the Federal Subsidy received is less than scheduled; provided, however, that if the PCRA has been completely depleted, such Special Reserve Accounts may be drawn upon to pay the principal of and interest on the related Series 2010A-D Bonds.

The Special Reserve Account Requirement for the 2010B BABs Interest Subsidy Reserve Account will be, as of any date of calculation, 35% of the Interest Requirement for the current semi-annual Interest Period.

The Special Reserve Account Requirement for the 2010C CREBs Interest Subsidy Reserve Account will be, as of any date of calculation, an amount equal to the New CREBs Federal Subsidy expected to be received on the next succeeding Interest Payment Date. Taking into account the interest rate on the Series 2010C Taxable Bonds (New CREBs), the New CREBs Federal Subsidy will provide approximately 55.2% of each interest payment due thereon.

**The 2010B BABs Interest Subsidy Reserve Account and the 2010C CREBs Interest Subsidy Reserve Account secure only the Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs), respectively.**

## **THE POWER SALES CONTRACT**

*General.* Under the Power Sales Contract, each Participant is entitled to receive its Project Share from the Project. In exchange therefor, each Participant is required to make monthly payments to AMP in amounts equal to such Participant's proportionate share (equal to such Participant's Project Share) of AMP's Revenue Requirements, which will include the fixed and variable costs incurred by AMP in connection with the Project, including debt service on the Series 2010A-D Bonds. With the exceptions discussed below, each Participant's obligation to make payments pursuant to the Power Sales Contract is a limited obligation payable solely out of the revenues, and as an operating expense, of its Electric System. In the case of the City of Coldwater, Michigan (1.71% Project Share), the City of Wyandotte, Michigan (1.68% Project Share) and the City of Marshall, Michigan (0.57% Project Share) in certain circumstances as more fully described in APPENDIX D – "Summary of Certain Provisions of the Power Sales Contract – *Rates and Charges; Method of Payment*," their obligations under the Power Sales Contract may be payable from the revenues of their respective Electric Systems on a basis subordinate to the payment of the operating expenses of their Electric Systems and to debt service on their outstanding (but not future) senior Electric System revenue bonds until such revenue bonds are retired.

*Take-or-Pay.* Each Participant's obligation to make payments pursuant to the Power Sales Contract is a "Take-or-Pay" obligation of such Participant. Therefore, the Power Sales Contract provides that such payments are not be subject to any reduction, whether by offset, counterclaim, or otherwise, shall not be conditioned upon the performance by AMP or any other Participant of its obligations under the Power Sales Contract, or any other agreement, and such payments shall be made whether or not the Project is completed, operable, operating and notwithstanding the suspension, interruption, interference, reduction or curtailment, in whole or in part, for any reason whatsoever, of the Project or the Participant's Project Share, including Step Up Power (as defined below), if any.

*Step Up Provisions.* The Power Sales Contract contains a "Step Up" provision that requires, in the event of a default by a Participant (the "*Defaulting Participant*"), the non-defaulting Participants (the "*Non-Defaulting Participants*") to purchase a pro rata share, based upon each Non-Defaulting Participant's original Project Share, of the Defaulting Participant's entitlement to its Project Share which, together with the shares of the other Non-Defaulting Participants, is equal to the Defaulting Participant's Project Share ("*Step Up Power*"). Under the terms of the Power Sales Contract, each Non-Defaulting Participant is obligated to accept Step Up Power in an amount up to 106% of its original Project Share. This percentage is required to create an effective step up provision in the event that the largest Participant, Hamilton, which has a 51.4% Project Share, should default under the Power Sales Contract. See APPENDIX D – "Summary of Certain Provisions of the Power Sales Contract" and APPENDIX H-2 – "Market Comparison Analysis and Participant Beneficial Use Analysis."

*Enforceability of the Power Sales Contract; Legislation.* In December 2007, the Franklin County, Ohio, Court of Common Pleas issued an order validating a power sales contract relating to the Combined Hydroelectric Projects (as hereinafter defined), between AMP and the Ohio Participants.

Specifically, the court held that Take-or-Pay and Step-Up provisions, similar to those in the Power Sales Contract, constitute valid and binding obligations of the Ohio Participants. Based on such validation order and the constitutional home-rule powers granted Ohio municipalities, Ohio State Counsel is of the opinion that such provisions are binding and enforceable obligations of the Ohio Participants. The Michigan and Virginia Participants have specific legislative authority to enter into long-term power sales agreements, such as the Power Sales Contract, which include Take-or-Pay and Step-Up provisions. Kentucky State Counsel is of the opinion that the Kentucky Participant has the power under Kentucky statutes applicable to municipal electric systems to enter into and perform its obligations under the Power Sales Contract. See “APPROVAL OF LEGAL MATTERS – Power Sales Contract” herein.

*AMP to Control Enforcement.* So long as AMP is not in default under the Indenture, AMP will retain the authority to enforce the provisions of the Power Sales Contract against Defaulting Participants. Furthermore, events of default under the Power Sales Contract are not automatically Events of Default under the Indenture.

#### **RATE COVENANT AND COVERAGE**

AMP has covenanted under the Indenture that, so long as the Series 2010A-D Bonds remain outstanding thereunder, it will fix, and if necessary adjust, rates and charges so that the Net Revenues will be sufficient to provide an amount in each Fiscal Year at least equal to the greater of (y) 110% of the Debt Service Requirements (calculated net of scheduled Federal Subsidy payments) for such Fiscal Year on account of the Bonds and any Parity Debt then outstanding and (z) 100% of the sum of the Debt Service Requirements (calculated net of scheduled Federal Subsidy payments) for such fiscal year on account of the Bonds and Parity Debt then outstanding and the amount required to make all other deposits required by the Indenture and to pay all other obligations of AMP related to the Project, including any Subordinate Obligations, as the same become due.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the gross debt service requirements for the Series 2010A-D Bonds without regard to capitalized interest or the Federal Subsides. Principal of and interest on the Series 2010A-D Bonds are shown in the table below in the year in which the same come due.

### Gross Debt Service Requirements for the Series 2010A-D Bonds

Year Ending December 31,	Series 2010A Taxable Bonds		Series 2010B Taxable Bonds (BABs)		Series 2010C Taxable Bonds (New CREBs)		Series 2010D Tax-Exempt Bonds		Total Gross Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	-	\$1,587,741	-	\$13,397,167	-	\$ 943,640	-	\$157,411	\$16,085,959
2012	-	2,304,786	-	19,447,500	-	1,369,800	-	228,500	23,350,586
2013	-	2,304,786	-	19,447,500	-	1,369,800	-	228,500	23,350,586
2014	-	2,304,786	-	19,447,500	-	1,369,800	-	228,500	23,350,586
2015	-	2,304,786	-	19,447,500	-	1,369,800	-	228,500	23,350,586
2016	\$7,745,000	2,132,769	-	19,447,500	-	1,369,800	-	228,500	30,923,569
2017	8,090,000	1,768,939	-	19,447,500	-	1,369,800	-	228,500	30,904,739
2018	8,470,000	1,362,326	-	19,447,500	-	1,369,800	-	228,500	30,878,126
2019	8,905,000	912,791	-	19,447,500	-	1,369,800	-	228,500	30,863,591
2020	9,375,000	421,555	-	19,447,500	-	1,369,800	-	228,500	30,842,355
2021	2,910,000	82,528	-	19,447,500	-	1,369,800	\$4,570,000	114,250	28,494,078
2022	-	-	-	19,447,500	-	1,369,800	-	-	20,817,300
2023	-	-	-	19,447,500	-	1,369,800	-	-	20,817,300
2024	-	-	\$3,710,000	19,308,394	-	1,369,800	-	-	24,388,194
2025	-	-	3,985,000	19,019,870	-	1,369,800	-	-	24,374,670
2026	-	-	4,285,000	18,709,786	-	1,369,800	-	-	24,364,586
2027	-	-	4,600,000	18,376,643	-	1,369,800	-	-	24,346,443
2028	-	-	-	18,204,166	\$20,000,000 <sup>1</sup>	684,900	-	-	38,889,066
2029	-	-	4,945,000	18,018,753	-	-	-	-	22,963,753
2030	-	-	5,310,000	17,634,242	-	-	-	-	22,944,242

<sup>1</sup> Although the entire \$20,000,000 principal amount of the Series 2010C Taxable Bonds (New CREBs) is due February 15, 2028, AMP is obligated to bill the Participants for \$6,200,000 during the twelve-month period ending February 15, 2027 as though such amount were a Sinking Fund Requirement.

Year Ending December 31,	Series 2010A Taxable Bonds		Series 2010B Taxable Bonds (BABs)		Series 2010C Taxable Bonds (New CREBs)		Series 2010D Tax-Exempt Bonds		Total Gross Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2031	-	-	5,705,000	17,221,234	-	-	-	-	22,926,234
2032	-	-	6,130,000	16,777,481	-	-	-	-	22,907,481
2033	-	-	6,585,000	16,300,732	-	-	-	-	22,885,732
2034	-	-	7,075,000	15,788,550	-	-	-	-	22,863,550
2035	-	-	10,000,000	15,173,273	-	-	-	-	25,173,273
2036	-	-	7,605,000	14,538,124	-	-	-	-	22,143,124
2037	-	-	8,170,000	13,946,640	-	-	-	-	22,116,640
2038	-	-	8,775,000	13,311,287	-	-	-	-	22,086,287
2039	-	-	9,430,000	12,628,691	-	-	-	-	22,058,691
2040	-	-	10,130,000	11,895,289	-	-	-	-	22,025,289
2041	-	-	10,885,000	11,107,331	-	-	-	-	21,992,331
2042	-	-	11,695,000	10,260,694	-	-	-	-	21,955,694
2043	-	-	12,565,000	9,351,066	-	-	-	-	21,916,066
2044	-	-	13,500,000	8,373,758	-	-	-	-	21,873,758
2045	-	-	14,505,000	7,323,711	-	-	-	-	21,828,711
2046	-	-	15,585,000	6,195,486	-	-	-	-	21,780,486
2047	-	-	16,745,000	4,983,273	-	-	-	-	21,728,273
2048	-	-	17,990,000	3,680,884	-	-	-	-	21,670,884
2049	-	-	19,325,000	2,281,758	-	-	-	-	21,606,758
2050	-	-	20,765,000	778,584	-	-	-	-	21,543,584
<b>Total</b>	<b>\$45,495,000</b>	<b>\$17,487,793</b>	<b>\$260,000,000</b>	<b>\$587,956,862</b>	<b>\$20,000,000</b>	<b>\$23,545,340</b>	<b>\$4,570,000</b>	<b>\$2,328,161</b>	<b>\$961,383,162</b>

Numbers may not add to totals due to rounding.



The following table sets forth the gross debt service requirements for the Series 2010A-D Bonds net of capitalized interest and the Federal Subsidies. Principal of and interest on the Series 2010A-D Bonds are shown in the table below in the year in which the same come due.

**Net Debt Service Requirements for the Series 2010A-D Bonds**

<u>Year Ending December 31</u>	<u>Total Gross Debt Service on Series 2010A-D Bonds<sup>(1)</sup></u>	<u>Federal Subsidies<sup>(2)</sup></u>	<u>Total Debt Service Net of Federal Subsidies<sup>(2)</sup></u>	<u>Capitalized Interest<sup>(3)</sup></u>	<u>Total Debt Service Net of Federal Subsidies and Capitalized Interest</u>
2011	\$16,085,959	\$5,209,808	\$10,876,151	\$10,876,151	\$ 0
2012	23,350,586	7,562,625	15,787,961	15,787,961	0
2013	23,350,586	7,562,625	15,787,961	15,787,961	0
2014	23,350,586	7,562,625	15,787,961	17,230,098	(1,442,137) <sup>1</sup>
2015	23,350,586	7,562,625	15,787,961	13,789,004	1,998,957
2016	30,923,569	7,562,625	23,360,944	-	23,360,944
2017	30,904,739	7,562,625	23,342,114	-	23,342,114
2018	30,878,126	7,562,625	23,315,501	-	23,315,501
2019	30,863,591	7,562,625	23,300,966	-	23,300,966
2020	30,842,355	7,562,625	23,279,730	-	23,279,730
2021	28,494,078	7,562,625	20,931,453	-	20,931,453
2022	20,817,300	7,562,625	13,254,675	-	13,254,675
2023	20,817,300	7,562,625	13,254,675	-	13,254,675
2024	24,388,194	7,513,938	16,874,256	-	16,874,256
2025	24,374,670	7,412,954	16,961,715	-	16,961,715
2026	24,364,586	7,304,425	17,060,161	-	17,060,161
2027	24,346,443	7,187,825	17,158,618	-	17,158,618
2028	38,889,066	6,749,458	32,139,608	-	32,139,608
2029	22,963,753	6,306,564	16,657,189	-	16,657,189
2030	22,944,242	6,171,985	16,772,257	-	16,772,257

<sup>1</sup> The negative number is attributable to capitalized interest on the Series 2010A Taxable Bonds and will be applied to pay interest assumed on the Series 2010E Bonds in the same period. See pages 16 and 18.

<b>Year Ending December 31</b>	<b>Total Gross Debt Service on Series 2010A-D Bonds<sup>(1)</sup></b>	<b>Federal Subsidies<sup>(2)</sup></b>	<b>Total Debt Service Net of Federal Subsidies</b>	<b>Capitalized Interest<sup>(3)</sup></b>	<b>Total Debt Service Net of Federal Subsidies and Capitalized Interest</b>
2031	22,926,234	6,027,432	16,898,802	-	16,898,802
2032	22,907,481	5,872,118	17,035,363	-	17,035,363
2033	22,885,732	5,705,256	17,180,476	-	17,180,476
2034	22,863,550	5,525,993	17,337,558	-	17,337,558
2035	25,173,273	5,310,646	19,862,628	-	19,862,628
2036	22,143,124	5,088,343	17,054,780	-	17,054,780
2037	22,116,640	4,881,324	17,235,316	-	17,235,316
2038	22,086,287	4,658,951	17,427,337	-	17,427,337
2039	22,058,691	4,420,042	17,638,649	-	17,638,649
2040	22,025,289	4,163,351	17,861,938	-	17,861,938
2041	21,992,331	3,887,566	18,104,765	-	18,104,765
2042	21,955,694	3,591,243	18,364,451	-	18,364,451
2443	21,916,066	3,272,873	18,643,193	-	18,643,193
2044	21,873,758	2,930,815	18,942,943	-	18,942,943
2045	21,828,711	2,563,299	19,265,412	-	19,265,412
2046	21,780,486	2,168,420	19,612,066	-	19,612,066
2047	21,728,273	1,744,146	19,984,127	-	19,984,127
2048	21,670,884	1,288,309	20,382,575	-	20,382,575
2049	21,606,758	798,615	20,808,143	-	20,808,143
2050	21,543,584	272,504	21,271,079	-	21,271,079
<b>Total</b>	<b>\$961,383,162</b>	<b>\$218,779,704</b>	<b>\$742,603,458</b>	<b>\$73,471,175</b>	<b>\$669,132,283</b>

Numbers may not add to totals due to rounding.

<sup>(1)</sup> From pages 12 and 13.

<sup>(2)</sup> The scheduled Federal Subsidies on the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs).

<sup>(3)</sup> Amounts deposited to the Capitalized Interest Subaccounts of the Bond Subfund, including anticipated investment earnings to be credited thereto.

The following table, which assumes the issuance of the Series 2010E Bonds as Build America Bonds prior to January 1, 2011, sets forth the assumed gross debt service requirements on Series 2010E Bonds and debt service on the Series 2010E Bonds, net of assumed capitalized interest and the assumed federal subsidy. Principal of and interest on the Series 2010E Bonds are shown in the table below in the year in which the same is expected to come due.

**Debt Service Requirements for the Series 2010 E Bonds**

<b>Year Ending December 31</b>	<b>Series 2010E Bonds Principal<sup>(1)</sup></b>	<b>Series 2010E Bonds Interest</b>	<b>Gross Debt Service on the Series 2010E Bonds</b>	<b>Series 2010E Federal Subsidy<sup>(2)</sup></b>	<b>Capitalized Interest on Series 2010E Bonds<sup>(3)</sup></b>	<b>Total Net Debt Service on Series 2010E Bonds</b>
2011	-	\$10,404,309	\$10,404,309	\$3,641,508	\$ 6,762,801	\$ 0
2012	-	26,624,075	26,624,075	9,318,426	17,305,649	0
2013	-	26,624,075	26,624,075	9,318,426	17,305,649	0
2014	-	26,624,075	26,624,075	9,318,426	15,863,511	1,442,137
2015	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2016	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2017	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2018	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2019	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2020	-	26,624,075	26,624,075	9,318,426	-	17,305,649
2021	\$ 2,445,000	26,532,399	28,977,399	9,286,340	-	19,691,060
2022	10,535,000	26,045,714	36,580,714	9,116,000	-	27,464,714
2023	11,055,000	25,236,197	36,291,197	8,832,669	-	27,458,528
2024	7,890,000	24,525,854	32,415,854	8,584,049	-	23,831,805
2025	8,185,000	23,923,122	32,108,122	8,373,093	-	23,735,030
2026	8,485,000	23,298,081	31,783,081	8,154,328	-	23,628,752
2027	2,515,000	22,885,636	25,400,636	8,009,972	-	17,390,663
2028	145,000	22,785,899	22,930,899	7,975,065	-	14,955,834
2029	9,425,000	22,427,072	31,852,072	7,849,475	-	24,002,597
2030	9,765,000	21,707,543	31,472,543	7,597,640	-	23,874,903

Year Ending December 31	<u>Series 2010E Bonds</u>		Gross Debt Service on the <u>Series 2010E Bonds</u>	Series 2010E <u>Federal Subsidy</u> <sup>(2)</sup>	Capitalized Interest on <u>Series 2010E Bonds</u> <sup>(3)</sup>	Total Net Debt Service on <u>Series 2010E Bonds</u>
	<u>Principal</u> <sup>(1)</sup>	<u>Interest</u>				
2031	10,110,000	20,962,330	31,072,330	7,336,815	-	23,735,514
2032	10,465,000	20,190,870	30,655,870	7,066,805	-	23,589,066
2033	10,825,000	19,392,601	30,217,601	6,787,411	-	23,430,191
2034	11,190,000	18,567,149	29,757,149	6,498,502	-	23,258,647
2035	9,155,000	17,804,313	26,959,313	6,231,510	-	20,727,804
2036	12,470,000	16,993,484	29,463,484	5,947,719	-	23,515,765
2037	12,890,000	16,042,611	28,932,611	5,614,914	-	23,317,697
2038	13,325,000	15,059,679	28,384,679	5,270,888	-	23,113,792
2039	13,755,000	14,044,315	27,799,315	4,915,510	-	22,883,805
2040	14,195,000	12,996,329	27,191,329	4,548,715	-	22,642,614
2041	14,635,000	11,915,349	26,550,349	4,170,372	-	22,379,977
2042	15,080,000	10,801,185	25,881,185	3,780,415	-	22,100,770
2443	15,525,000	9,653,650	25,178,650	3,378,778	-	21,799,873
2044	15,975,000	8,472,558	24,447,558	2,965,395	-	21,482,162
2045	16,420,000	7,257,907	23,677,907	2,540,268	-	21,137,640
2046	16,860,000	6,010,074	22,870,074	2,103,526	-	20,766,548
2047	17,295,000	4,729,432	22,024,432	1,655,301	-	20,369,131
2048	17,725,000	3,416,357	21,141,357	1,195,725	-	19,945,632
2049	18,145,000	2,071,411	20,216,411	724,994	-	19,491,417
2050	18,550,000	695,532	19,245,532	243,436	-	19,002,096
<b>Total</b>	<u>\$355,035,000</u>	<u>\$726,465,634</u>	<u>\$1,081,500,634</u>	<u>\$254,262,972</u>	<u>\$57,237,609</u>	<u>\$770,000,053</u>

Numbers may not add to totals due to rounding.

<sup>(1)</sup> Sinking Fund Installments.

<sup>(2)</sup> The estimated Federal Subsidy on the Series 2010E Bonds, assuming a short-term rate of approximately 3% through June 1, 2011 and a long-term fixed rate of 7.499% through the February 15, 2050 final maturity.

<sup>(3)</sup> Amounts included anticipated to be credited to the 2010E Construction Account, including anticipated investment earnings to be credited thereto to pay interest on the Series 2010E Bonds through July 15, 2014.

The following table sets forth gross debt service on the Series 2010A-D Bonds and the assumed gross debt service requirements on Series 2010E Bonds combined, as well as debt service on the Series 2010A-D Bonds, net of capitalized interest and the Federal Subsidies, the Series 2010E Bonds, net of assumed capitalized interest and the federal subsidy. Debt Service on all of the Series 2010 Bonds is shown in the table below in the year in which the same comes due, or is expected to come due.

**Debt Service on the Series 2010 Bonds**

<b>Year Ending December 31</b>	<b>Total Gross Debt Service on Series 2010A-D Bonds</b>	<b>Total Gross Debt Service on the Series 2010E Bonds</b>	<b>Total Gross Debt Service on all of the Series 2010 Bonds</b>	<b>Total Net Debt Service on Series 2010A-D Bonds</b>	<b>Total Net Debt Service on the Series 2010E Bonds</b>	<b>Total Net Debt Service on all of the Series 2010 Bonds</b>
2011	\$16,085,959	\$10,404,309	\$26,490,268	\$	\$	\$
2012	23,350,586	26,624,075	49,974,661	0	0	0
2013	23,350,586	26,624,075	49,974,661	0	0	0
2014	23,350,586	26,624,075	49,974,661	(1,442,137)	1,442,137	0
2015	23,350,586	26,624,075	49,974,661	1,998,957	17,305,649	19,304,606
2016	30,923,569	26,624,075	57,547,644	23,360,944	17,305,649	40,666,593
2017	30,904,739	26,624,075	57,528,814	23,342,114	17,305,649	40,647,763
2018	30,878,126	26,624,075	57,502,201	23,315,501	17,305,649	40,621,150
2019	30,863,591	26,624,075	57,487,666	23,300,966	17,305,649	40,606,615
2020	30,842,355	26,624,075	57,466,430	23,279,730	17,305,649	40,585,379
2021	28,494,078	28,977,399	57,471,477	20,931,453	19,691,060	40,622,512
2022	20,817,300	36,580,714	57,398,014	13,254,675	27,464,714	40,719,389
2023	20,817,300	36,291,197	57,108,497	13,254,675	27,458,528	40,713,203
2024	24,388,194	32,415,854	56,804,048	16,874,256	23,831,805	40,706,061
2025	24,374,670	32,108,122	56,482,792	16,961,715	23,735,030	40,696,745
2026	24,364,586	31,783,081	56,147,667	17,060,161	23,628,752	40,688,913
2027	24,346,443	25,400,636	49,747,078	17,158,618	17,390,663	34,549,281
2028	38,889,066	22,930,899	61,819,965	32,139,608 <sup>1</sup>	14,955,834	47,095,442 <sup>1</sup>
2029	22,963,753	31,852,072	54,815,825	16,657,189	24,002,597	40,659,786
2030	22,944,242	31,472,543	54,416,785	16,772,257	23,874,903	40,647,160

<sup>1</sup> See footnote on page 12.

<b>Year Ending December 31</b>	<b>Total Gross Debt Service on Series 2010A-D Bonds</b>	<b>Total Gross Debt Service on the Series 2010E Bonds</b>	<b>Total Gross Debt Service on all of the Bonds</b>	<b>Total Net Debt Service on Series 2010A-D Bonds</b>	<b>Total Net Debt Service on the Series 2010E Bonds</b>	<b>Total Net Debt Service on all of the Bonds</b>
2031	22,926,234	31,072,330	53,998,564	16,898,802	23,735,514	40,634,317
2032	22,907,481	30,655,870	53,563,351	17,035,363	23,589,066	40,624,428
2033	22,885,732	30,217,601	53,103,334	17,180,476	23,430,191	40,610,667
2034	22,863,550	29,757,149	57,547,644	17,337,558	23,258,647	40,596,205
2035	25,173,273	26,959,313	52,132,587	19,862,628	20,727,804	40,590,431
2036	22,143,124	29,463,484	51,606,608	17,054,780	23,515,765	40,570,545
2037	22,116,640	28,932,611	51,049,251	17,235,316	23,317,697	40,553,013
2038	22,086,287	28,384,679	50,470,967	17,427,337	23,113,792	40,541,128
2039	22,058,691	27,799,315	49,858,006	17,638,649	22,883,805	40,522,454
2040	22,025,289	27,191,329	49,216,618	17,861,938	22,642,614	40,504,552
2041	21,992,331	26,550,349	48,542,680	18,104,765	22,379,977	40,484,742
2042	21,955,694	25,881,185	47,836,879	18,364,451	22,100,770	40,465,221
2443	21,916,066	25,178,650	47,094,716	18,643,193	21,799,873	40,443,065
2044	21,873,758	24,447,558	46,321,316	18,942,943	21,482,162	40,425,105
2045	21,828,711	23,677,907	45,506,618	19,265,412	21,137,640	40,403,052
2046	21,780,486	22,870,074	44,650,560	19,612,066	20,766,548	40,378,614
2047	21,728,273	22,024,432	43,752,705	19,984,127	20,369,131	40,353,258
2048	21,670,884	21,141,357	42,812,241	20,382,575	19,945,632	40,328,207
2049	21,606,758	20,216,411	41,823,170	20,808,143	19,491,417	40,299,560
2050	21,543,584	19,245,532	40,789,116	21,271,079	19,002,096	40,273,175
<b>Total</b>	<u>\$961,383,162</u>	<u>\$1,081,500,634</u>	<u>\$2,042,883,795</u>	<u>\$669,132,283</u>	<u>\$770,000,053</u>	<u>\$1,439,132,336</u>

## **THE SERIES 2010A-D BONDS**

### **GENERAL**

The Series 2010A-D Bonds will be dated their date of delivery, will bear interest from that date at the rates per annum set forth on the inside cover page hereof, payable semiannually on February 15 and August 15 of each year, commencing February 15, 2011, and will mature on February 15 in each of the years and in the principal amounts set forth on the inside cover page hereof.

The Series 2010A-D Bonds will be issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest on any Series 2010 Bond will be paid to the person in whose name such bond is registered as of the applicable Regular Record Date, which is February 1 for interest due on February 15, and August 1 for interest due on August 15.

### **DESIGNATION OF SERIES 2010B TAXABLE BONDS (BABs) AS “BUILD AMERICA BONDS;” ELECTION WITH RESPECT TO SERIES 2010C TAXABLE BONDS (NEW CREBs)**

AMP will designate the Series 2010B Taxable Bonds (BABs) as “Build America Bonds” for purposes of the Recovery Act. Furthermore, AMP intends to elect to apply Section 54AA(g) of the Code with respect to Series 2010B Taxable Bonds (BABs), pursuant to which AMP will be allowed by the United States Treasury a credit that AMP will receive in the form of the BABs Federal Subsidy, payable on or before each Interest Payment Date to the Trustee for the credit of AMP, pursuant to Section 6431 of the Code.

AMP has received an allocation from the Internal Revenue Service, pursuant to the Heartland, Habitat, Harvest and Horticulture Act of 2008 and the Recovery Act, to issue \$20 million in New Clean Renewable Energy Bonds for the Project. The Series 2010C Taxable Bonds (New CREBs) will be issued pursuant to such allocation. AMP will elect to have Section 6431(f) of the Code apply to the Series 2010C Taxable Bonds (New CREBs), pursuant to which provision AMP will be allowed by the United States Treasury a credit that AMP will receive in the form of the New CREBs Federal Subsidy, payable on or before each Interest Payment Date to the Trustee for the credit of AMP, pursuant to Section 6431 of the Code.

AMP expects that the Trustee will receive the Federal Subsidies on or before each interest payment date for the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs). The Federal Subsidies do not constitute a full faith and credit guarantee of the United States, but are required to be paid by the Treasury under the Recovery Act, as amended by the HIRE Act.

**AMP is obligated to make all payments of principal and interest on the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs) whether or not it receives the Federal Subsidies pursuant to the Recovery Act, but solely from the revenues, moneys, securities and funds pledged to the payment thereof in the Indenture.**

**Section 54AA(f)(1) of the Code provides that interest on any Build America Bond shall be includable in gross income. Under no circumstances will the owner of a Series 2010B Taxable Bond (BABs) receive a credit under Section 54AA(f)(1) of the Code against the tax imposed. Similarly, pursuant to the HIRE Act, interest on the Series 2010C Taxable Bonds (New CREBs) shall be includable in gross income and owners thereof will not be entitled to receive a credit under Section 54A(a) of the Code against the tax imposed.**

## REDEMPTION – SERIES 2010 TAXABLE BONDS

*Make-Whole Optional Redemption – Series 2010 Taxable Bonds.* From any available moneys, AMP may, at its option, redeem, on any Business Day, prior to their respective maturities, in whole or in part, the Series 2010A Taxable Bonds, the Series 2010B Taxable Bonds (BABs) and the Series 2010C Taxable Bonds (New CREBs), at the “Make Whole-Redemption Price” (as such term is defined below). The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the Series 2010 Taxable Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2010 Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Taxable Bonds are to be redeemed, discounted on a semi-annual basis to the date on which the Series 2010 Taxable Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the “Treasury Rate” (as defined below) plus 50 basis points, plus, in each case, accrued and unpaid interest on the Series 2010 Taxable Bonds to be redeemed on the redemption date.

The “Treasury Rate” means, with respect to any redemption date for a particular Series 2010 Taxable Bond, the yield to maturity as of such redemption date of U.S. Treasury securities (excluding inflation indexed securities) with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 45 calendar days, such date to be selected by AMP, prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed, provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year will be used.

*Extraordinary Optional Redemption – Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs).* The Series 2010B Taxable Bonds (BABs) and Series 2010C Taxable Bonds (New CREBs) are subject to redemption from any available moneys, at the option of AMP, prior to their maturity, in whole or in part upon the occurrence of an Extraordinary Event, at a Redemption Price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed; and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted on a semi-annual basis to the date on which the Bonds are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points, plus, in each case, accrued interest on the Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if (i) AMP determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds” or, with respect to Section 6431 of the Code, by the HIRE Act) or (ii) there is any guidance published by the IRS or the United States Treasury with respect to such Sections or any other determination by the IRS or the United States Treasury, and pursuant to which the BABs Federal Subsidy or New CREBs Federal Subsidy from the United States Treasury is reduced or eliminated other than as the result of any act or omission by AMP to satisfy the requirements to qualify to receive the BABs Federal Subsidy with respect to the Series 2010B Taxable Bonds (BABs), or New CREBs Federal Subsidy with respect to the Series 2010C Taxable Bonds (New CREBs), from the United States Treasury.

*Mandatory Sinking Fund Redemption - Series 2010 Taxable Bonds.* The Series 2010B Taxable Bonds (BABs) due on February 15, 2050, are Term Bonds subject to mandatory sinking fund redemption



on the Principal Payment Dates in the following years in the following principal amounts at a Redemption Price equal to par, together with interest accrued to the date of redemption:

**Series 2010B Taxable Term Bonds (BABs) Maturing on February 15, 2050**

<u>Year</u>	<u>Principal Amount</u>
2024	\$3,710,000
2025	3,985,000
2026	4,285,000
2027	4,600,000
•	
2029	4,945,000
2030	5,310,000
2031	5,705,000
2032	6,130,000
2033	6,585,000
2034	7,075,000
•	
2036	7,605,000
2037	8,170,000
2038	8,775,000
2039	9,430,000
2040	10,130,000
2041	10,885,000
2042	11,695,000
2043	12,565,000
2044	13,500,000
2045	14,505,000
2046	15,585,000
2047	16,745,000
2048	17,990,000
2049	19,325,000
2050*	20,765,000

\* Final Maturity

*Selection of Series 2010 Taxable Bonds to be Redeemed.* If the Series 2010 Taxable Bonds are not registered in book-entry-only form, any redemption of less than all of the Series 2010 Taxable Bonds will be allocated among the registered owners of such Series 2010 Taxable Bonds as nearly as practicable in proportion to the principal amounts of the Series 2010 Taxable Bonds owned by each registered owner, subject to the authorized denominations applicable to the Series 2010 Taxable Bonds. This will be calculated based on the formula: (principal to be redeemed) x (principal amount owned by owner) / (principal amount outstanding). The particular Series 2010 Taxable Bonds to be redeemed will be determined by the Trustee, using such method as the Trustee in its sole discretion shall determine.

For so long as the Series 2010 Taxable Bonds are registered in book-entry-only form and the Depository Trust Company or a successor securities depository, or its nominee, is the sole registered owner of such Series 2010 Taxable Bonds, in the event of a redemption of less than all of maturity within a Series of the Series 2010 Taxable Bonds, the particular ownership interests of such maturity of such

Series to be redeemed will be determined by DTC and Direct DTC Participants and Indirect DTC Participants (all as defined in Appendix G hereto), or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. The Series 2010 Taxable Bonds will be made eligible for partial redemptions to be treated by DTC, in accordance with its rules and procedures, as a “pro-rata pass-through distribution of principal”, and partial redemptions are expected to be processed by DTC on a pro-rata pass-through distribution of principal basis in accordance with such rules and procedures. In the event of a partial redemption of Series 2010 Taxable Bonds, the security position at DTC will not be reduced but the balance will be subject to adjustment by a factor to be provided to DTC by the Trustee. If, at the time of a partial redemption of a Series of Series 2010 Taxable Bonds, the Trustee fails to identify the Series 2010 Taxable Bonds being redeemed or purchased as being subject to a pro-rata pass-through distribution of principal and/or fails to furnish such factor to DTC, DTC’s rules and procedures provide that such redemption or purchase will be processed by random lottery.

AMP provides no assurance that DTC and any Direct DTC Participant and Indirect DTC Participant, or any successor securities depository or other intermediary, will make any such determination on a pro rata basis or effectuate a pro-rata pass-through distribution of principal in the case of a partial redemption of Series 2010 Taxable Bonds, and that the Trustee will identify the Series 2010 Taxable Bonds and provide the appropriate factor as described above in the case of a partial redemption of Series 2010 Taxable Bonds, and in each case any failure to do so shall not affect the sufficiency or the validity of the related redemption of Series 2010 Taxable Bonds.

*Defeasance of Series 2010 Taxable Bonds; Effect Thereof.* Under the Indenture, AMP may cause the deposit of moneys or securities to an escrow in an amount sufficient to pay the principal and Redemption Price of and interest on all or any of the Series 2010 Taxable Bonds and/to defease either (i) all its obligations under the Indenture with respect to the Series 2010 Taxable Bonds so redeemed (“*Legal Defeasance*”) or (ii) its obligations under certain covenants contained in the Indenture (“*Covenant Defeasance*”) with respect to the Bonds. AMP may complete a Legal Defeasance with respect to any Series 2010 Taxable Bonds notwithstanding the prior completion of a Covenant Defeasance. Exercise of these rights is subject to the satisfaction of certain conditions precedent. In order to accomplish a Legal Defeasance, AMP must deliver to the Trustee of an opinion of counsel experienced in federal income tax matters stating that (i) AMP has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of the respective supplemental Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the bonds will not recognize income, gain or loss for federal tax purposes as a result of such Legal Defeasance and will be subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred. In order to accomplish a Covenant Defeasance, AMP must deliver to the Trustee an opinion of counsel experienced in federal income tax matters to the effect that the holders of the bonds will not recognize income, gain or loss for federal tax purposes as a result of such covenant defeasance and will be subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred.

## **REDEMPTION – SERIES 2010D TAX-EXEMPT BONDS**

The Series 2010D Tax-Exempt Bonds are not subject to redemption prior to maturity.

## **NOTICE OF REDEMPTION**

Unless waived by any owner of Series 2010 Taxable Bonds to be redeemed, official notice of any such redemption shall be given by the Trustee by certified mail, return receipt requested, at least 30, but

not more than 90, days prior to the redemption date to each registered owner of the Series 2010 Taxable Bonds to be redeemed at the address shown on the bond register.

With respect to optional redemptions, including any extraordinary optional redemption of the Series 2010B Taxable Bonds (BABs) or the Series 2010C Taxable Bonds (New CREBs), such notice may be conditioned upon moneys being on deposit with the Trustee on or prior to the redemption date in an amount sufficient to pay the redemption price on the redemption date. If such notice is conditional and moneys are not received, such notice shall be of no force and effect, the Trustee shall not redeem such Series 2010 Taxable Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Series 2010 Taxable Bonds will not be redeemed.

The failure of any owner of Series 2010 Taxable Bonds to receive such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2010 Taxable Bonds. Any notice mailed as provided in this section shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any owner receives such notice.

**So long as DTC is effecting book-entry transfers of the Series 2010 Taxable Bonds, the Trustee shall provide the notices specified above only to DTC. It is expected that DTC will, in turn, notify the Direct Participants, that the Direct Participants will, in turn, notify the Indirect Participants and that the Direct Participants and the Indirect Participants will notify or cause to be notified the Beneficial Owners. Any failure on the part of DTC, a Direct Participant or an Indirect Participant, or failure on the part of a nominee of a Beneficial Owner of a Series 2010 Bond (having been mailed notice from the Trustee, a Direct Participant, an Indirect Participant or otherwise), to notify the Beneficial Owner of the Series 2010 Bond so affected, shall not affect the validity of the redemption of such Series 2010 Bond.**

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## THE PROJECT

### GENERAL

The Project consists of a run-of-the-river hydroelectric generating facility to be constructed on the Captain Anthony Meldahl Locks and Dam, an existing dam operated and managed by the Army Corps, on the Ohio River, approximately 36 miles upstream from Cincinnati, Ohio. The Project will utilize three 35 MW bulb-type turbines, which will divert water from the existing dam to generate electricity, and is projected to have a net rated electric generating capacity of 105 MW. The Project is anticipated to enter commercial operation on or about July 15, 2014.

### BACKGROUND

*General.* In 2002, AMP completed a strategic plan, including a 20-year power supply needs analysis. The plan identified the need for additional base load and intermediate generating resources to meet the increasing demands of its Members, concluding that ownership of generating facilities would, in the long term, be less expensive than purchasing power on the open market. In addition, AMP's strategic plan concluded that AMP's Members would benefit from the pursuit of a diverse portfolio of power supply resources which would reduce project and regulatory risk.

To identify potential hydroelectric resources, in 2006, AMP commissioned MWH Americas, Inc. ("MWH") to evaluate ten potential hydroelectric projects on the Ohio River (the "*MWH Studies*"). MWH evaluated the sites identified by AMP and ranked them based on the cost per MW of developing each potential site based on each project's assumed generating capacity. The Project was rated the most cost-effective of those surveyed.

During the same period, AMP commissioned R.W. Beck, Inc., an SAIC Company ("*R.W. Beck*"), to develop long-term power supply plans for its Members. In February 2007, R. W. Beck prepared a report for each Member that included a 20-year load forecast, a 20-year optimal power supply plan and the key inputs and assumptions used to develop the plan. In developing the plan for each Member, a generation expansion plan was developed assuming that the Member could participate in future AMP generating resources, including the hydroelectric projects identified in the MWH Studies. R.W. Beck has since updated the 2007 study. See "THE PARTICIPANTS – POWER SUPPLY."

*Greenup Hydroelectric Project and the Project.* Hamilton has owned and operated the Greenup Hydroelectric Facility ("*Greenup*"), a 70.2 MW run-of-the-river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, since 1988. In an effort to diversify and expand its hydroelectric portfolio, Hamilton sought and, on June 25, 2008, secured the FERC license to operate Meldahl Project (the "*FERC License*"). AMP provided Hamilton with technical and legal support during the period in which the latter was pursuing the FERC license to operate the Project.

Upon Hamilton's receipt of the FERC License, AMP and Hamilton entered into negotiations to jointly construct and operate the Project. AMP and Hamilton ultimately determined that it was in both parties' interests to diversify and expand their respective generation assets. As a result, AMP and Hamilton entered into the AMP-Hamilton Agreements, pursuant to which AMP agreed to finance the construction of the Project and to sell Hamilton a 51.4% Project Share pursuant to the Power Sales Contract. In addition, Hamilton agreed to sell to AMP a 48.6% undivided ownership interest in the Greenup upon the placement of the Meldahl Project into commercial operation. Hamilton will operate both facilities.

*Contractual Agreements Between AMP and Hamilton.* The principal AMP-Hamilton Agreements consist of: (a) the Meldahl-Greenup Participation Agreement (the “*Participation Agreement*”), (b) Meldahl, LLC Operating Agreement (the “*LLC Operating Agreement*”); (c) the Meldahl Purchase, Construction and Ownership Agreement (the “*PCOA*”), (d) the Meldahl Project Development and Agency Agreement (the “*Project Development Agreement*”) and (e) the Meldahl Project Operating Agreement (the “*Project Operating Agreement*”). See APPENDIX C – “Summary of Certain Provisions of the AMP-Hamilton Agreements” for more detailed summaries of such agreements.

The basic terms of each agreement are summarized below:

*Participation Agreement.* The Participation Agreement provides the framework and basic terms pursuant to which the Project will be developed and AMP will ultimately gain an ownership interest in Greenup. AMP initially paid Hamilton upon execution of the Participation Agreement \$2.43 million for the right to participate in the Project and another \$2.43 million upon the addition of AMP to the FERC License as a co-licensee with Hamilton (collectively, the \$4.86 million payments are referred to herein as the “*Participation Payment*”). AMP agreed to finance the Project and to sell Hamilton a 51.4% Project Share pursuant to the Power Sales Contract. Hamilton agreed to sell AMP a 48.6% undivided ownership interest in Greenup upon the placement of the Project into commercial operation. Hamilton will operate the Project, will continue to operate the Greenup and will be entitled to a \$1/MWh adder, which adder shall be indexed to account for inflation, for each MWh of energy delivered to AMP from the Meldahl Project and Greenup.

*LLC Operating Agreement.* The parties determined that it would be beneficial if direct ownership of the Project were held by a separate entity. Therefore, AMP and Hamilton agreed to organize Meldahl, LLC, as a single-member, Delaware not-for-profit limited liability company. Meldahl, LLC was created for the sole purpose of owning the Project. The Meldahl, LLC Board is to be appointed by AMP, except for the Independent Directors, who will be appointed by Hamilton. The Meldahl, LLC Board and will have exclusive power to manage the company’s affairs within the confines of the AMP-Hamilton Agreements, except for certain matters requiring unanimous consent of all Directors, including the Independent Directors.

*PCOA.* Under the terms of the PCOA, AMP has agreed, as agent for Meldahl, LLC, to finance, develop, construct and place the Project into commercial operation. AMP is also entitled to arrange for the sale of 100% of the capacity and energy from the Project, subject to the condition that AMP sell a 51.4% Project Share to Hamilton under the terms of the Power Sales Contract.

*Project Development Agreement.* Pursuant to the Project Development Agreement, Hamilton, as agent of Meldahl, LLC, will provide services and personnel during the development and construction of the Project.

*Project Operating Agreement.* Following the placement of the Project into commercial operation, Hamilton will provide services and personnel to manage and operate to the Project. Hamilton will ensure that the Project is operated in compliance with the terms of the FERC License and the terms of the AMP-Hamilton Agreements. As noted earlier, Hamilton has over 20 years’ experience operating Greenup.

*Asset Conveyance Agreement.* This agreement, which provides for the transfer by Hamilton to AMP of a Co-Licensee interest in the FERC license, is described below under “- FERC LICENSE.”

## OPERATION OF THE PROJECT

As noted above, the Project will be operated by Hamilton pursuant to the terms of the Meldahl Project Operating Agreement. Hamilton has owned and operated an electric utility system since 1893. Currently, Hamilton's Electric System is the second largest municipally-owned electric system in Ohio and is a fully integrated electric generation, transmission and distribution system. Hamilton's Electric System has approximately 125 full-time employees. For additional information about Hamilton's Electric System, see APPENDIX B – "Information on the Large Participants - *Hamilton*."

Hamilton has operated Greenup since Hamilton purchased the facility from the City of Vanceburg, Kentucky in May 1988. Hamilton has improved the operational performance of Greenup since its purchase and has implemented a testing, inspection and maintenance system which maximizes energy production by reducing forced outages.

Key personnel in the Hamilton Electric System who will ultimately be responsible for the operation of the Project include:

**Joshua A. Smith** was appointed City Manager on September 7, 2010. Mr. Smith received a Master of Public Administration degree with a concentration in Public Management from Iowa State University in Ames, Iowa and a Bachelor of Arts degree with a major in Organizational Behavior & Management from the University of Sioux Falls. He is a graduate of the University of Virginia's Weldon Cooper Center for Public Service Senior Executive Institute and the University of Oklahoma's Economic Development Institute.

He serves on the national Center for Performance Measurement Leadership Committee and on the ICMA International Committee. He has received the Credentialed Manager designation by the International City/County Management Association.

**Charles Young, P.E.** has served as Deputy City Manager/Managing Director of Operations since his permanent appointment on June 8, 2007. He has 17 years of utility experience, all with the City of Hamilton, five years experience as a researcher in an university environment and 12 years experience in private enterprise. From 2006 to 2007, he served as Hamilton's Director of Gas, Water and Utility Infrastructure Services; from 2005 to 2006 he served as Director of Utility Infrastructure Services; from 1999 to 2005 he served as Assistant Director of Electric; from 1997 to 1999 he served as Assistant Public Utilities Director; from 1995 to 1997 he served as Utility Engineering Superintendent and from February, 1993 to 1995 he served Environmental Administrator with the City. He obtained his Professional Engineering certification from the State of Ohio in 1994. From December of 1988 to February of 1993 he served as a Researcher with the University of Cincinnati for the Civil and Environmental Engineering College, and taught classes during this period at the University of Cincinnati in Electric Theory and Electronics. From August of 1976 to August of 1988 he worked for General Motors at the Fairfield, Ohio Fisher Body stamping and sub-assembly plant in various positions including electric, skilled-trades supervisor and engineer. He holds a B.S. degree in Electric Engineering (1990) from the University of Cincinnati and a MBA degree (2007) from the University of Cincinnati Business College. He currently serves as Hamilton's representative on AMP's Board of Trustees.

**William E. Moller** has served as the City of Hamilton Director of Finance since March 2008. Prior to that he was the Deputy City Manager of Covington, Kentucky from January 2006 to March 2008. Mr. Moller served as the City of Cincinnati Finance Director from October 2001 until his retirement in January 2006 and prior to that served as the Assistant Finance Director from 1999 to 2001. He was the City's Director of Budget and Evaluation from 1994 to 1999 and Assistant Director of Budget and Evaluation from 1991 to 1994. He was the Manager of Computer Services for the Regional Computer

Center of the City from 1984 to 1991. He is a member of the Government Finance Officers Association. Mr. Moller holds an MBA degree from Xavier University, an M.S. degree from Michigan State University, and a B.S. degree from the University of Cincinnati.

**Mark Brandenburger** was appointed Director of Special Utility Projects on September 7, 2010. He is responsible for planning, coordinating and reporting on major utility capital improvement projects for Hamilton. Mr. Brandenburger has served Hamilton in various capacities for twenty-three years, including as City Manager for over three years prior to being appointed to his current position. From 1999 to 2007, Mr. Brandenburger served as Managing Director of Operations/Deputy City Manager in charge of all municipal utilities; from 1997 to 1999, he served as Law Director; and from 1974 to 1984, he served as a Personnel Specialist and Assistant Law Director with the City of Hamilton. Mr. Brandenburger worked in the private sector, frequently in management and officer capacities, including as Director of Industrial Relations, Corporate Counsel and Assistant Secretary of Hamilton-Stevens Group, Inc., f/k/a The Hamilton Tool Company, a manufacturer of collators and printing presses for business forms, packaging and currency printing. He has taught courses in Business Law, Employment Litigation and Collective Bargaining at Miami University's campuses in Oxford, Hamilton and Middletown, Ohio. He holds a B.S. degree in Business Administration from Miami University and a J.D. degree from the University of Cincinnati Law School.

**Wayson K. Cooper** has served as Manager of Hydroelectric Operations for the City of Hamilton since 2009. Mr. Cooper will also be directly involved in the start up and operation of the Project. He has held hydroelectric management positions since 1983. He has been charged with operating Greenup since it entered into commercial operation in 1982, initially for the City of Vanceburg, Kentucky, and then for the City of Hamilton after the City purchased Greenup in 1988. In 2000 his role expanded to include managing the operation and relicensing of the Hamilton Hydroelectric Project.

## **FERC LICENSE**

As discussed earlier, Hamilton initially secured the FERC license for the Project. On June 16, 2010, FERC entered its order approving AMP and Hamilton's joint petition with FERC to add AMP as a co-licensee. As contemplated by the FERC order, AMP and Hamilton have entered into an Asset Conveyance Agreement pursuant to which Hamilton conveyed to AMP and AMP accepted the conveyance of a Co-Licensee interest in the FERC license for the Project and as agent for Meldahl, LLC sole title to the other tangible and intangible assets and rights related to the FERC license.

The FERC license expires on June 24, 2058, eight years after the expected final maturity date of the Series 2010A-D Bonds. Hamilton and AMP expect to file an application for a new license prior to the expiration of the current license. Under existing law, an application for a new license must be filed no later than two years prior to the expiration of the original license. Based on a review of prior FERC licensure proceedings and discussions with counsel, AMP is confident that a timely license renewal can be obtained.

FERC license conditions impose certain environmental requirements, including provisions relating to erosion control, dissolved oxygen maintenance and monitoring, run-of-river operations and monitoring plan, endangered species and terrestrial resources, historical and cultural resources, site restoration and the provision of recreational resources. Addressing certain of these environmental concerns will require independent studies and analysis and, ultimately, remediation plans. The plans are either being developed or have already been approved by various governmental agencies, including the United States Fish and Wildlife Service, the Army Corps and state agencies having jurisdiction in the state where the related Project is to be located. AMP and Hamilton intend to work diligently to secure approval of the remaining plans.

## ENVIRONMENTAL CONSIDERATIONS AND PERMITTING

Pursuant to Section 404 of the Clean Water Act, as amended (33 U.S.C. § 1344), any discharge of dredged or fill materials into “waters of the United States,” which term includes navigable waters, tributaries of such waters, interstate waters and their tributaries and certain jurisdictional wetlands, is forbidden unless authorized by a permit (a “*Section 404 Permit*”) issued by the Army Corps. As construction of the Project will require the use of, among other things, cofferdams which will utilize fill materials, AMP must secure a Section 404 Permit for the Project. Hamilton, with technical and legal assistance from AMP, filed an application for a Section 404 Permit for the Project with the Huntington District Engineer of the Army Corps in November 2008. The Section 404 Permit was issued on April 8, 2010.

In addition, as construction of the Project will require alteration of the Captain Anthony Meldahl Dam on the Ohio River, AMP and Hamilton must, pursuant to Section 14 of the Navigable Rivers and Harbors Act of 1899, as amended (33 U.S.C. § 408), receive permission from the Army Corps prior to altering the dam (a “*Section 408 Approval*”). Unlike Section 404 Permits, which may be issued by the related Army Corps District Engineer, Section 408 Approvals must be granted by the Chief of Civil Works of the Army Corps in Washington, D.C. Hamilton applied for a Section 408 Approval from the Army Corps in connection with its application for the Section 404 Permit. The Section 408 Approval for the Project was approved on March 19, 2010.

Applicants for a Section 404 Permit must also receive a certification to conduct any activity that may result in a discharge to waters of the state issued by the state from which the discharge originates pursuant to Section 401 of the Clean Water Act, as amended (33 U.S.C. § 401) (a “*Section 401 Certification*”). The Section 401 Certification for the Project was issued by Kentucky in May 2009.

## DESIGN ENGINEER AND CONSTRUCTION

Hamilton originally developed a request for proposals seeking qualified engineering firms with experience in the design of hydroelectric generation projects. Hamilton selected MWH as its Design Engineer for the Project. Subsequent to the execution of the AMP-Hamilton Agreements, AMP retained MWH as Design Engineer. In such capacity, MWH will oversee the design and construction of the Project and provide AMP and Hamilton with a broad range of technical assistance, including preparation of the project specifications and assistance in the selection of contractors and equipment.

Headquartered in Broomfield, Colorado, MWH is a private, employee-owned firm with approximately 6,000 employees worldwide. The company provides water, wastewater, energy, natural resource, program management, consulting and construction services to industrial, municipal and government clients in the Americas, Europe, Middle East, India, Asia and the Pacific Rim. Harza Engineering Company, which merged with Montgomery Watson, Inc. in 2001 to form MWH, was the design engineer for the 42 MW Belleville Hydroelectric Plant, which entered commercial operation in 1999 and which AMP has operated on behalf of OMEGA JV5, a joint venture among 42 AMP Members. MWH has also been retained by AMP as design engineer for Combined Hydroelectric Projects, each of which will also consist of run-of-the-river hydroelectric facilities.

In order to obtain certain economies of scale, AMP and Hamilton have combined, and, when practical, intend to continue to combine, the procurement process for the Project with the procurement process for AMP’s Combined Hydroelectric Projects. This procurement process involves prequalification of potential bidders and a competitive bidding process for major construction and equipment contracts.



AMP solicited proposals from prequalified bidders for the design and construction of temporary cofferdams at the Project in September 2009. In December 2009, after consultation with Hamilton and MWH, AMP received bids from contractors to build the cofferdams. MWH prepared a bid evaluation report and recommended an award to Angelo Iafrate Construction Company of Warren, Michigan and awarded the contract in April 2010. The contract price is approximately \$24.2 million. Construction of the cofferdams started in April 2010. The cofferdams, which will be located upstream and downstream of the Project, are required during construction to create a dry work area. Following construction of the cofferdams, general construction of the Project may begin.

In March 2009, AMP negotiated with Voith Hydro a contract to manufacture the turbines and generators for the Project and the Combined Hydroelectric Projects (hereinafter mentioned). The estimated value of the order allocable to the Project is approximately \$123 million. Voith Hydro is a Group Division of the Voith GmbH ("*Voith*") group of companies, headquartered in Heidenheim, Germany.

On November 23, 2010, Voith issued a press release stating that irregularities in the accounting methods used by Voith Hydro had been detected and that the management team of Voith Hydro responsible for the affected financial years has been relieved of its duties pending the outcome of the ongoing review. According to the press release, revenues from multi-year projects were not appropriately accounted for on an accrual basis and the financial impact on Voith has been estimated by Voith to be less than \$1.5 million for its fiscal year 2009.

On November, 24, 2010, AMP's President and Chief Executive Officer and Senior Vice President of Finance and Chief Financial Officer met with the President and Chief Executive Officer of Voith Hydro, who is also a member of the Board of Management of Voith, and received assurances that these accounting irregularities will not adversely impact Voith Hydro's performance of its contracts with AMP for the turbines and generators for the Project and the Combined Hydroelectric Projects.

## **ELECTRICAL INTERCONNECTION**

AMP, Hamilton and MWH are currently examining different routing options for the transmission line that will interconnect the Project to the transmission system. Owing to the location of the Project, energy therefrom may be delivered either to the Midwest Independent Transmission System Operator, Inc. ("*MISO*") or PJM Interconnection ("*PJM*") geographical footprints. AMP submitted generation interconnection requests to both PJM and MISO. PJM indicated in a preliminary feasibility study that no network upgrades were required and, as work continues on the system impact study, this finding has not changed. Barring any adverse findings, the only interconnection costs to AMP would be the direct interconnection facilities.

MISO has issued a draft system impact study which indicates that a system upgrade may be necessary for a MISO interconnection. In addition, Duke Energy Kentucky, Inc. has estimated that it would need to undertake approximately \$9 million in site work to complete the interconnection.

At this time, AMP anticipates that, regardless of the interconnection option it pursues, the Project will ultimately interconnect to PJM. As discussed later, Duke Energy has announced plans to move Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. from MISO to PJM on January 1, 2012. On October 21, 2010, FERC conditionally accepted the companies' RTO realignment request, subject to the satisfaction of certain conditions.

## **TAXES**

AMP is of the view that the Project may be exempt from certain taxes under Kentucky law. However, AMP intends to hold discussions with Kentucky taxing authorities regarding the tax status of the Project under Kentucky law. One outcome of such discussion could be an agreement to make payments in lieu of taxes (“*PILOTs*”) to the appropriate authorities. Although AMP has provided the Consulting Engineers, for purposes of their reports, with an estimate of annual operating expenses, including insurance premiums, FERC License Fees and taxes, AMP can provide no assurance that amounts estimated for taxes, if the Project is ultimately determined to not be exempt from taxation, or *PILOTs*, if it is, will be acceptable to Kentucky’s taxing authorities.

## **ENGINEERS’ REPORTS**

Sawvel and Associates, Inc. (“*Sawvel*”) has been retained by AMP as Consulting Engineer under the Power Sales Contract. Sawvel, a nationally-recognized engineering and consulting firm, has prepared a consulting engineer’s report (the “*Consulting Engineer’s Report*”) regarding the Project, which is attached as APPENDIX H-1 hereto. The Consulting Engineer’s Report has been included in this Official Statement in reliance on the reputation of Sawvel as an expert in hydroelectric project engineering. The Consulting Engineer’s Report contains information not set forth elsewhere in this Official Statement and should be read in its entirety.

AMP also retained R.W. Beck, Inc. to prepare a report to assess whether the Participants can beneficially use their respective Project Shares (the “*Beneficial Use Report*”). The Beneficial Use Report takes into account factors such as the Participants’ existing loads, projected growth and participation in other AMP generation projects. The Beneficial Use Report is attached as APPENDIX H-2 hereto.

## **AMERICAN MUNICIPAL POWER, INC.**

### **NONPROFIT CORPORATION**

AMP was formed in 1971 as a nonprofit corporation under Ohio Revised Code Chapter 1702. Under applicable law, AMP has perpetual existence and the duration of its existence is not otherwise limited by its certificate of incorporation or by any agreement with its Members. AMP must file, however, at certain times, Statements of Continued Existence with the Ohio Secretary of State pursuant to Ohio Revised Code § 1702.59. AMP has made all such required filings and is in good standing.

As of November 1, 2010, AMP had 128 Members – 82 municipalities in Ohio, 30 boroughs in Pennsylvania, six cities in Michigan, five municipalities in Virginia, three cities in Kentucky and two cities in West Virginia, all but one of which owns and operates electric distribution systems and a few of which own and operate generating assets. The remaining Member is in the process of creating a municipal electric distribution system.

## **TAX STATUS**

AMP obtained a determination letter from the IRS on July 31, 1980, supplemented by ruling letters dated January 18, 1981 and December 12, 1987, determining that AMP qualifies as a Section 501(c)(12) corporation under the Internal Revenue Code of 1986, as amended, provided that at least 85% of AMP’s total revenue consists of amounts collected from its Members for the sole purpose of meeting losses and expenses (which include debt service). AMP believes that it has met the requirements for maintenance of Section 501(c)(12) status each year since it received the initial letter. AMP intends to

retain its Section 501(c)(12) status. As a Section 501(c)(12) corporation, AMP's income is not subject to federal income tax.

AMP has also received private letter rulings to the effect that it may issue, on behalf of its Members, obligations the interest on which is excludible from the gross income of holders of the obligations for federal income tax purposes and that it is a wholly owned instrumentality of its Members with the consequence that use of tax-exempt financed facilities by AMP will not result in private use under the Code. See also "TAX MATTERS".

Under Ohio law, AMP is subject to Ohio personal property, real estate and sales taxes.

#### **AFFILIATES; MEMBER SERVICES**

AMP is closely aligned with another Ohio statewide municipal power organization. The Ohio Municipal Electric Association ("*OMEA*") is the legislative liaison for the state's municipal electric systems. AMP has also facilitated the formation of a number of municipal joint ventures pursuant to Ohio Revised Code § 715.02 and the Ohio Constitution. In addition to Ohio Municipal Electric Generating Agency ("*OMEGA*") Joint Ventures 1, 2, 4, 5 and 6 (See "*AMERICAN MUNICIPAL POWER, INC.—Other Projects—JVs 1, 2, 4, 5 and 6; Combustion Turbine Project; Prepaid Purchase*"), the Municipal Energy Services Agency ("*MESA*") has also been formed. MESA provides management and technical services to AMP and its Members. MESA employs approximately 140 people, and AMP approximately 100 people.

In July 2009, AMP moved its administrative offices and Energy Control Center to a new 100,000 square-foot facility in Columbus, Ohio. The facility is owned by AMP.

AMP purchases wholesale electric power and energy and resells the same to its Members at rates based on cost plus a small service fee. AMP also develops alternative power resources for its Members to meet their short- and long-term needs. In 2009, the cost of power sold or arranged by AMP for its Members was approximately \$740 million. AMP's Energy Control Center monitors loads and transmission availability, dispatches, buys and sells power and energy for its Members, 24 hours a day, 365 days a year and controls AMP and Member-owned generation. In-house engineering, operations, safety, power supply, rate and environmental staff is available at AMP's headquarters to assist Member communities in addition to performing AMP duties and providing support to the joint ventures.

#### **RELATIONSHIP WITH THE ENERGY AUTHORITY**

AMP has contracted with The Energy Authority® ("*TEA*") to provide bilateral trading, risk control and RTO services for AMP's wholesale portfolio. TEA provides trading services and RTO Market Participant functions on behalf of AMP while maintaining "best practices" risk control and reporting over the entire portfolio. TEA is the nation's leader in public power energy trading and risk management and is wholly-owned and directed by its public power members.

#### **AMP'S INTEGRATED RESOURCE STRATEGY AND APPROACH TO SUSTAINABILITY**

AMP and its Members lead the way in terms of environmentally responsible electric generation in the region. Collectively, wind, run-of-the-river hydroelectric, landfill gas and fossil fuels are all part of AMP's generation resource mix. AMP's forward-thinking integrated resource strategy is consistent with its corporate sustainability commitment, and includes a portfolio consisting of fossil fuel and a variety of renewable generation projects, energy efficiency initiatives and carbon management activities, described below. In addition, AMP's actions are guided by a set of Environmental Stewardship Principles approved

by the AMP Board of Trustees. The organization's first Environmental Stewardship Annual Report, released in 2008, reported on the actions that AMP has taken to implement the various principles.

*Renewable Energy.* As noted above, wind, run-of-the-river hydroelectric and landfill gas are all part of the renewable generation portfolio currently available to AMP's Members. In addition to the Meldahl Project, AMP and its Members are currently pursuing the development of approximately 295 MW of additional run-of-the-river hydroelectric power at existing dams on the Ohio River. See "*Other Hydroelectric Projects*" herein. The hydroelectric projects currently under development would bring significant economic benefits to the region. In addition to being a leader in hydroelectric development, AMP is evaluating development of new wind, solar and landfill gas generation in the region. Specifically, AMP recently announced a collaboration with Standard Energy, Inc., an affiliate of Standard Solar, to develop up to 300 MW of solar over the next 25 years.

*Energy Efficiency.* In 2010, in connection with the Consent Decree relating to Gorsuch Station (each as hereinafter defined), AMP executed a 3-year contract with the Vermont Energy Investment Corp. ("VEIC") to implement a set of state-of-the-art energy efficiency services for AMP's Members. VEIC is a nationally recognized leader in developing energy efficiency programs. The executed contract will create an Ohio-based turnkey entity (i.e., emphasizing VEIC's technical expertise and financial incentives for Member customers) to provide a portfolio of energy efficiency services to all major retail customer classes (i.e., residential, commercial, and industrial) and is designed to achieve at least 70,000 MWh of energy savings over its initial term. The AMP/VEIC contract is performance-based which means a portion of VEIC's fee is at risk if the contract's performance targets are not met.

*Carbon Management.* AMP is taking action to report and reduce CO<sub>2</sub> and other greenhouse gas ("GHG") emissions, while also investing in CO<sub>2</sub> offset projects. AMP is investigating the options for various CO<sub>2</sub> offset projects, primarily agriculture-based projects that would capture or reduce CO<sub>2</sub>, methane, and N<sub>2</sub>O from livestock and other farm activities, as well as forestry projects. AMP was the first municipal public power member of the Chicago Climate Exchange, the world's first voluntary, legally-binding, rules-based GHG emission reduction and trading system. AMP is also a member of the Midwest Regional Carbon Sequestration Partnership, helping to support its examination of options for sequestering CO<sub>2</sub> once captured.

## GOVERNANCE

AMP is governed by a Board of Trustees. The current Member Trustees and their representatives are shown on page i of this Official Statement. The AMP Board of Trustees consists of 19 communities, each of which designates a representative to the Board. Eleven of these Trustee communities are selected by their fellow public power communities in each of AMP's eleven Member service groups, which assures representation by at least one community from each state that has five or more Members. The other eight are elected at large. The officers of AMP are: Chair of the Board, Vice Chair, Secretary, Treasurer, President and General Counsel. The President and General Counsel are appointed by the Board of Trustees and are ex officio members of the Board.

Various Board of Trustees committees concentrate on vital functions of the organization. Current committees are: base load generation, board oversight, by-laws review, finance, generation/clean air, Gorsuch Station project, green power development, joint ventures oversight, legislative, member services, mutual aid, nominating, non-electric, personnel, policy, power supply and generation, scholarship, and transmission/regional transmission organizations. In addition, there are subcommittees on accounting/finance, economic development, and safety.

## AMP EXECUTIVE MANAGEMENT AND SENIOR STAFF

The principal members of the executive management and senior staff of AMP, with information concerning their background and experience, are listed below.

### *Executive Management*

*Marc Gerken, P.E.*, has served as President and Chief Executive Officer of AMP since February 2000. Previously, Mr. Gerken served as Vice President of Business and Operations at AMP from January 16, 1998. He is a 1977 graduate of the University of Dayton, beginning his public service career in 1990 with the City of Napoleon, serving as city engineer. In 1995, he was named city manager of Napoleon and served in that capacity until his employment by AMP. Mr. Gerken is the immediate past Chairman of the American Public Power Association (“APPA”) and a member of its Board of Directors. He holds a B.S. in Civil Engineering from the University of Dayton and is a registered professional engineer in the States of Ohio and Florida.

*Robert Trippe* serves as Senior Vice President of Finance and Chief Financial Officer and has been with AMP since April 1991. In this capacity, Mr. Trippe oversees all financial, treasury, and outside accounting relationships in addition to other administrative duties. Before joining AMP, Mr. Trippe worked at Detroit Edison from 1978 to 1991. During that time, he served as the vice president and chief financial officer for SYNDECO Inc., a wholly-owned, diversification subsidiary of Detroit Edison. Mr. Trippe holds a B.S. in Accounting and Finance from Missouri State University.

*John Bentine* has served as AMP’s General Counsel since 1981 and is an ex officio member of the AMP Board of Trustees. Mr. Bentine is a partner in the Columbus, Ohio law firm of Chester Willcox & Saxbe LLP and served as the firm’s managing partner and chaired the firm’s management committee from 1998 to 2008. He is admitted to practice in Ohio and before the U.S. District Court, Southern District of Ohio. Before entering private practice in 1981, he served as a senior assistant city attorney, City of Columbus, 1978-1981, and as an assistant attorney general and counsel to the Public Utilities Commission of Ohio, 1975-1978. Mr. Bentine holds a B.B.A. from Marshall University and a J.D. from The Ohio State University.

*Jolene Thompson* serves as Senior Vice President, Member Services and External Affairs of AMP. Ms. Thompson has been part of the AMP member relations area since 1990, also serving as Executive Director of OMEA since 1997. She is a registered lobbyist in Ohio and Washington, D.C. In 2003, Ms. Thompson completed a two-year term as chair of the APPA advisory committee of state and regional associations and member of the APPA Board of Directors. She holds a B.A. in Journalism from Otterbein University.

*Pam Sullivan* serves as Senior Vice President, Marketing and Operations of AMP. Before joining AMP in 2003, Ms. Sullivan was vice president, director of marketing, for a consulting engineering firm specializing in power generation and distribution, where she was responsible for developing and implementing marketing plans and strategies. She holds a B.S. in Electrical Engineering from the University of Toledo.

### *Senior Staff*

*Larry Marquis, P.E.*, has served as Vice President, Prairie State Construction of AMP since November 2003. Previously, Mr. Marquis served as the administrator for the Columbus Division of Electricity and Vice Chair of the AMP Board of Trustees. In addition, he has held engineering positions with the Nebraska Municipal Power Pool, the Northern California Power Agency, the Lincoln (Nebraska)

Electric System and the Omaha Public Power District. Mr. Marquis holds a B.S. and a M.S. in Electrical Engineering from the University of Nebraska.

*Dan Preising, P.E.*, also serves as a Vice President, Project Development of AMP. Mr. Preising joined AMP in July 2009, as Vice President of AMPGS Construction and became Vice President of Project Development in January 2010. He previously worked for the City of Orrville as director of Utilities, represented Orrville on the AMP Board of Trustees, and served Chair of the Board for five years. He is a registered professional engineer in Ohio with a Master of Business Administration from Baldwin-Wallace College and a bachelor's degree in Chemical Engineering from the University of Akron.

*Jane Juergens* serves as Vice President, Human Resources and Talent Management of AMP. Ms. Juergens has been with AMP for 15 years, beginning in the human resources department. Before joining AMP, Ms. Juergens had worked in the human resources field at Franklin University and was secretary/treasurer of Juergens Woodworks Inc. from 1982 to 1989. In 2005, she served as chair of the APPA's human resources and training committee. She holds degrees in Business Management and Human Resources Management from Franklin University.

*Terry Leach* serves as Vice President, Risk Control, of AMP. Previously, Mr. Leach served as General Manager of AMPO Inc. Prior to joining AMP, he was operations manager for the Midwest and Eastern regions of Green Mountain Energy Company. His past experience includes serving as Assistant Ohio Secretary of State and in operations management, IT consulting and sales and banking services for several national corporations. He holds a Bachelor of Science Degree in Business Management from Franklin University.

*Michael Perry* serves as Vice President of Generation Operations of AMP. In this capacity, Mr. Perry oversees all AMP operating generation assets, including hydroelectric operations, development and construction. Prior to joining AMP, he worked for the Electric System for the City of Hamilton for 14 years, including 10 years of service as the Director of the Electric Department. While he worked for Hamilton, he represented it on the AMP Board of Trustees for 10 years. He previously worked for the City of Columbus and AMP in various capacities. He holds a Bachelor of Science in Mining Engineering from The Ohio State University.

*Phil Meier* serves as Assistant Vice President, Hydroelectric Development of AMP and is its Project Manager for the Project. Previously, Mr. Meier served as AMP's Chief Information Officer. He has also managed construction of the OMEGA JV5 Belleville Hydroelectric Plant. He currently manages for AMP the development and construction of the Project and the Combined Hydroelectric Projects. He holds a Bachelor of Science Degree in Electronic Engineering Technology from DeVry Institute.

## **OTHER PROJECTS**

Several of the studies of alternative power supply and transmission arrangements AMP has made or commissioned have resulted in cooperative undertakings by AMP and one or more of its Members. Included among these projects are the following:

*Gorsuch Station (47 Members).* AMP's Richard H. Gorsuch Generating Station ("Gorsuch Station") is a 1950's vintage 213 MW coal-fired, base load power plant located on the Ohio River near Marietta, Ohio. Gorsuch Station was originally built as a co-generation facility and today still supplies steam to several nearby industrial customers. As discussed below, AMP ceased Gorsuch Station electric generation operations on November 17, 2010. AMP is analyzing options for the future use of the Gorsuch Station site.

AMP purchased in 1988 a 69.24% undivided ownership interest in the electric generating facilities, now known as the Gorsuch Station, from Elkem Metals, Inc. (“*Elkem*”), an industrial metals company, and purchased Elkem’s remaining interest in 1999. The power and energy associated with the Gorsuch Station, associated resources and replacement power are sold pursuant to take-and-pay power sales contracts to 48 of AMP’s Members (the “*Gorsuch Participants*”). Under the Gorsuch power sales contracts, AMP may purchase or otherwise provide replacement power for sale to the Gorsuch Participants if it decides to cease operating Gorsuch Station prior to the retirement of all outstanding debt secured thereby. The City of Cleveland purchases 10 MW of power and energy generated at Gorsuch Station pursuant to a separate contract with AMP that runs through December 31, 2012.

Under the Gorsuch power sales take-and-pay contracts, a Gorsuch Participant bears certain risks that include, but are not limited to, any: (a) regulatory risk, including obtaining and complying with necessary Environmental Protection Agency permits and the effects of any legislation resulting in limits on emissions that could increase the cost of operating Gorsuch Station, the cost of fuel, or significant additional capital expenditures to meet those requirements; (b) risks associated with the operation of Gorsuch Station, including fuel cost escalation and damage to Gorsuch Station in excess of insurance coverage; (c) risks of non payment by other Gorsuch Participants; and (d) risk that the power available and required to be purchased under the power sales contracts becomes uneconomical. The costs associated with these risks are recovered by AMP by increasing its rates for electricity delivered under the power sales contracts. Gorsuch Participants are also responsible for all Gorsuch Station closing costs, which AMP may determine to recover over some future period of time from the Gorsuch Participants.

On August 28, 2008, AMP issued its \$98,890,000 Multi-Mode Variable Rate Gorsuch Station Taxable Revenue Bonds, Series 2008A and 2008B (the “*2008 Gorsuch Bonds*”) to pay off the obligations relating to Gorsuch Station which AMP had been carrying on its Line of Credit and to fund certain pension, other post-employment benefit obligations, and other termination costs related to the future closing of Gorsuch Station. The 2008 Gorsuch Bonds were secured by a letter of credit issued by KeyBank National Association (“*KeyBank*”) and the payment obligations of the Gorsuch Participants under the Gorsuch power sales contracts. In December 2009, \$17,720,000 of scheduled principal payments were made on the 2008 Gorsuch Bonds, and, on January 21, 2010, AMP redeemed the outstanding balance of the 2008 Gorsuch Bonds with the unspent proceeds thereof and proceeds of two five-year Notes issued by AMP to KeyBank in an aggregate principal amount of \$40,000,000 (the “*Gorsuch Term Notes*”). The Gorsuch Term Notes are payable in fifty-nine consecutive monthly installments, with the balance payable in full on December 15, 2014. The principal of the floating rate Gorsuch Term Notes is payable in equal monthly payments of principal plus accrued interest. AMP amended the two floating-to-fixed, cost of funds, interest rate swap agreements with KeyBank associated with the Gorsuch 2008 Bonds to match the principal amounts and variable interest rates on the Gorsuch Term Notes. The Gorsuch Term Notes are special non-recourse obligations of AMP and the principal of and the interest thereon are payable solely from the payments made by the Gorsuch Participants to AMP pursuant to the terms of the Gorsuch power sales contracts. As of November 1, 2010, \$33,333,330 aggregate principal amount of the Gorsuch Notes was outstanding.

AMP ceased electric generation operations at Gorsuch Station on November 17, 2010. Previously, AMP had determined the project had a useful life through approximately 2012. The decision stems from the settlement reached with the U.S. Environmental Protection Agency (“*USEPA*”) that resolves all issues related to a Notice of Violation (*NOV*) issued by the USEPA that alleged that certain work performed at the plant in 1981-1986 (before AMP had an interest therein), and in 1988-1991 (after AMP acquired an interest in the plant) should have triggered a “New Source Review.” The settlement includes a binding obligation that AMP cease coal-fired generation operations at Gorsuch no later than December 31, 2012 and also requires AMP to spend \$15 million on an environmental mitigation project

over several years and pay a civil penalty of \$850,000. The environmental mitigation project will be in the form of an energy efficiency initiative administered by VEIC pursuant to a contract with AMP. The initiative will include services for residential, commercial and industrial customers and will be designed to help participating AMP Members save 70,000 MWh over a set period. The terms of the settlement are embodied in the form of a federally-enforceable consent decree ("*Consent Decree*"). The Consent Decree has been approved by the United States District Court for the Southern District of Ohio.

*JVs 1, 2, 4, 5 and 6; Combustion Turbine Project; Prepaid Purchase.* In 1992, AMP began sponsoring the creation and organization of project specific joint ventures (the "*JVs*") among certain of its Members for the purpose of acquiring certain electric utility assets. Several, described below, remain active.

- *OMEGA JV1* (21 Members): OMEGA JV1 owns 9 MW of distributive generation, located in Cuyahoga Falls, Ohio (the largest participant), consisting of six 1.5 MW Caterpillar diesel units then valued at \$1.8 million each. This project was installed by AMP and later sold to OMEGA JV1 at AMP's net cost. OMEGA JV1 has no debt.
- *OMEGA JV2* (36 Members): OMEGA JV2 owns 138.65 MW of distributed generation, consisting of two 32 MW gas-fired turbines, one 11 MW gas-fired turbine and one 1.6 MW and thirty-four 1.825 MW diesel generators. AMP is responsible for the operation of the JV2 Project. The project was purchased from AMP in December 2000 by OMEGA JV2 with a promissory note in the amount of \$58,570,596. AMP issued \$50,260,000 in fixed-rate bonds on behalf of certain Members that, combined with \$12,665,884 in capital contributed by other Members, provided permanent financing for the acquisition of the generators from AMP. As of November 1, 2010, \$33,445,000 principal amount of the AMP OMEGA JV2 bonds was outstanding. The debt is non-recourse to AMP. On October 25, 2010, AMP authorized a draw of up to \$27,500,000 on its Line of Credit to make a loan to OMEGA JV2 for the purpose, and the OMEGA JV2 participants approved the use of the proceeds of the loan, together with other available funds, for redeeming, on or about January 1, 2011, the entire principal balance of the AMP OMEGA JV2 bonds due after January 1, 2011.
- *OMEGA JV4* (4 Members): OMEGA JV4 owns a 69 kV transmission line located in Williams County, Ohio that electrically connects Members Bryan, Montpelier and Pioneer, providing additional reliability to their Electric Systems and the ability to make power sales to one industrial customer. AMP constructed the initial phase of the line in 1995 and then transferred title to the participants in December 1995 at no markup of its cost. OMEGA JV4 has no debt.
- *OMEGA JV5* (42 Members): In 1993, OMEGA JV5 assigned to a trustee the obligations of its participants to make payments for their respective ownership shares in the "*Belleville Project*," a 42 MW run-of-the-river hydroelectric generating facility on an Army Corps of Engineers dam near Belleville, Ohio, an associated transmission line in Ohio and 40 MW of backup diesel generation (consisting of 12 MW under contract with Oberlin, Ohio with the balance supplied by 1.8 MW Caterpillar units owned by OMEGA JV5). Simultaneously, the trustee issued \$153.4 million of tax-exempt beneficial interest certificates ("*Belleville BICs*") in the participants' payment obligations to finance the acquisition and construction of the Belleville Project. The Franklin County, Ohio, Court of Common Pleas validated the Belleville BICs pursuant to Ohio Revised Code § 133.70. AMP is responsible for operation of the Belleville Project. The hydroelectric



generation associated with the Belleville Project was placed in service and has been operational since June 1999. The diesel generation units have been in service since 1995. Taking into account the issuance of additional Belleville BICs (i) in 2001 to pay for minor improvements and construction cost overruns attributable in part to the bankruptcy of the original prime contractor for the Belleville Project and (ii) in 2004 for the refunding of the callable 1993 Belleville BICs for interest cost savings, there were outstanding as of November 1, 2010, \$114,052,921 Belleville BICs with a final maturity of 2030. The debt is non-recourse to AMP. The Federal Energy Regulatory Commission license for the Belleville Project runs through August 31, 2039.

- *OMEGA JV6* (10 Members): OMEGA JV6 owns four 1.8 MW wind turbines located in Bowling Green, Ohio. AMP is responsible for the operation of the JV6 Project. In July 2004, AMP entered into a \$9,861,000 private placement arrangement of the payment obligations of the participants (the “*JV6 Obligations*”) on behalf of OMEGA JV6 to fund the project. The interest rate on the JV6 Obligations is reset each debt service payment date, based on the six-month MMD Index. Under the terms of the arrangement, the JV6 Obligations are subject to redemption at the discretion of AMP with 180 days written notice. The JV6 Obligations are also subject to tender at the option of the purchaser under the same terms and conditions. As of November 1, 2010, \$5,416,000 principal amount of AMP’s JV6 Obligations was outstanding. The debt is non-recourse to AMP.
- *Combustion Turbine Project* (33 Members): In August 2003, AMP financed, with a draw on its Line of Credit, the acquisition of three gas turbine installations, located in Bowling Green, Galion and Napoleon, Ohio (each of which is an AMP Member), plus an inventory of spare parts. Each installation consists of two gas-fired turbine generators, one 32 MW and one 16.5 MW, with an aggregate nameplate capacity for all three installations of 145.5 MW. On December 13, 2006, AMP refinanced its obligations on the Line of Credit attributable to the purchase with the issuance of its \$13,120,000 Multi-Mode Variable Rate Combustion Turbine Project Revenue Bonds, Series 2006 (the “*CT Bonds*”). The CT Bonds are payable from amounts received by AMP from the participating Members under power schedules. The CT Bonds are secured by an irrevocable, direct-pay letter of credit (the “*CT Letter of Credit*”) issued by KeyBank. AMP is liable under a reimbursement agreement to pay all amounts drawn under the CT Letter of Credit to the extent not paid by the participating Members. As of November 1, 2010, \$11,285,000 aggregate principal amount of the CT Bonds was outstanding.
- *Electricity Prepayment* (41 Members): In 2007, AMP issued \$307,655,000 Electricity Purchase Revenue Bonds (2007A Prepayment Issue) (the “*Prepay Bonds*”) to effect the prepayment at a discount of the purchase price for 171 MW of firm electric power for a period of 65 months. Forty-one Members of AMP (“*Prepay Participants*”) have entered into power schedules with AMP that obligate them to make payments that, together with certain investment earnings, will be sufficient to pay the debt service on the Prepay Bonds. Apart from an up to \$10 million liability in the event of a Prepay Participant default, the debt is non-recourse to AMP. The electricity supplier provided a parental guarantee of its obligations to deliver power or, on default, to make a termination payment to bondholders. The balance of the contract is marked-to-market daily. As of November 1, 2010, \$181,130,000 aggregate principal amount of the Prepay Bonds was outstanding.

In connection with the issuance of the Prepay Bonds, AMP directed the trustee for the Prepay Bonds to enter into a guaranteed investment contract (the “*Prepay GIC*”) with

Citigroup Financial Products Inc. (“CFPI”) relating to certain payments made by the Prepay Participants. CFPI’s obligations under the Prepay GIC are guaranteed by Citigroup Inc. (“Citigroup”). Pursuant to the downgrade provisions of the Prepay GIC relating to Citigroup, Citigroup posted collateral on December 31, 2008.

*AMPGS (81 Members).* Until November 2009, AMP had been developing a twin unit, supercritical boiler, coal-fired, steam and electric generating facility to have an aggregate net rated electric generating capacity of approximately 940 MW, known as the American Municipal Power Generating Station (“*AMPGS*”), in Meigs County, in southeastern Ohio, on the Ohio River. AMPGS had been expected to enter commercial operation in 2014 at a total capital cost of approximately \$3 billion. In the fourth quarter of 2009, however, the estimated capital costs increased by 37% and the EPC (engineer, procure and construct) contractor would not guarantee that the costs would not continue to escalate.

As a result, prior to the commencement of major construction at the project site, the 81 AMP Members that had subscribed for capacity from AMPGS (“*AMPGS Participants*”) voted to cease development of AMPGS as a coal fired project. AMP had previously exercised options on approximately 900 acres of land for the proposed site for AMPGS. AMP studied various alternatives, including developing AMPGS as a natural gas combined cycle facility supplemented with market purchases and with the possibility of future enhancements for the project, such as biomass or other advanced energy technology. On August 19, 2010, the AMPGS Participants and the AMP Board determined to pursue a self-build natural gas combined cycle electric generation facility with a net rated electric generating capacity of approximately 600 MW at the Meigs County site. The conversion provides AMP and the AMPGS Participants the ability to benefit from some of the previous development work as well as utilize the site. On September 1, 2010, AMP selected the team of Ramco and Burns and McDonnell to provide engineering, procurement and construction services for the combined cycle project.

As of December 31, 2009, AMPGS had been classified in AMP’s consolidated financial statements as “plant held for future use.” With the AMPGS Participants’ decision related to the planned use of the Meigs County site, a portion of the AMPGS development costs will be reclassified to construction work-in-progress. If it is determined that any other such costs incurred to date are not be able to used as part of a new project, these costs will be determined to be impaired and reestablished in AMP’s financial statements as a “regulatory asset” to be recovered from the AMPGS Participants.

Following the settlement or other resolution of any contract or other claims by or against vendors and contractors related to AMPGS, AMP expects to recover the remaining costs associated with AMPGS from the AMPGS Participants pursuant to the terms of the take-or-pay power sales contract they executed in connection with the development of AMPGS. AMP does anticipate that any such costs that are not recovered as part of a replacement project would be financed by AMP and recovered from the AMPGS Participants over a period of years to be determined.

*Prairie State Energy Campus (68 Members).* On December 20, 2007, AMP acquired an effective 23.26% undivided ownership interest (the “*PSEC Ownership Interest*”) in the Prairie State Energy Campus, a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company (“*AMP 368 LLC*”). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007. As of the end of August 2010, engineering efforts were approximately 94% complete, construction efforts were approximately 48% complete, start-up activities were approximately 3% complete and overall efforts were approximately 49% complete.

On July 2, 2008, AMP issued \$760,655,000 Prairie State Energy Campus Revenue Bonds, Series 2008A (the “*2008 Prairie State Bonds*”). AMP used the proceeds of the 2008 Prairie State Bonds to

refund a portion of the Initial CP allocable to the acquisition of the PSEC Ownership Interest and other PSEC expenditures, finance additional PSEC project costs, fund capitalized interest on the 2008A Prairie State Bonds and pay the costs of issuance.

On March 31, 2009, AMP issued \$166,565,000 aggregate principal amount of its Prairie State Energy Campus Project Revenue Bonds, Series 2009A (the “*2009A Prairie State Bonds*”), the net proceeds of which, after the funding of various reserves and a deposit to a capitalized interest account to pay interest on the 2009A Prairie State Bonds, were used to refund its \$120,000,000 of its Prairie State Project Revenue Bond Anticipation Notes, Series 2008, the proceeds of which were used to provide temporary financing for certain PSEC expenditures.

On October 15, 2009, AMP issued \$469,580,000 aggregate principal amount of its Prairie State Energy Campus Project Revenue Bonds, Series 2009B (Federally Taxable) and Series 2009C (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “*Series 2009B and C Prairie State Bonds*” and, collectively with the 2009A Prairie State Bonds, the “*2009 Prairie State Bonds*”) to finance additional PSEC project costs, fund capitalized interest on the Series 2009B and C Prairie State Bonds, fund deposits to a debt service reserve and pay the costs of issuance.

On September 29, 2010, AMP issued \$300,000,000 aggregate principal amount of its Prairie State Energy Campus Project Revenue Bonds, Series 2010 (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “*Series 2010 Prairie State Bonds*” and, collectively with the 2008 Prairie State Bonds and 2009 Prairie State Bonds, the “*Prairie State Bonds*”) to finance additional PSEC project costs, fund capitalized interest on the Series 2010 Prairie State Bonds, fund deposits to a debt service reserve and pay the costs of issuance.

As of September 29, 2010, AMP estimated that the total capital costs of placing its PSEC Ownership Interest into service to be approximately \$1.147 billion.

AMP will sell the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “*Prairie State Power Sales Contract*”) with 68 Members (the “*Prairie State Participants*”). The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

*Combined Hydroelectric Projects (79 Members).* AMP is also currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “*Combined Hydroelectric Projects*”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. In November 2009, AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively. Ground breaking ceremonies were held for Cannelton on August 5, 2009 and for Smithland on September 1, 2010. AMP currently anticipates receipt of the last of the material permits for the Willow Island hydroelectric facility in the late 2010.

In addition to the award of the contract to manufacture the turbines and generators for the Combined Hydro Project to Voith Hydro, AMP has also let certain design build contracts, including contracts for the construction of the required cofferdams, for the Cannelton and Smithland facilities.

To provide interim financing for the Combined Hydroelectric Projects pending the issuance of the Hydroelectric Bonds, AMP issued \$350,000,000 aggregate principal amount of its Hydroelectric Project Revenue Bond Anticipation Notes, Series 2009A (the “*Hydro BANs*”) on April 16, 2009. The Hydro BANs were payable from (i) the proceeds of bonds in anticipation of which the Hydro BANs were issued and (ii) payments to be received by AMP pursuant to the power sales contract between AMP and the Members participating in the Combined Hydroelectric Projects.

On December 9, 2009, AMP issued \$643,835,000 aggregate principal amount of its Combined Hydroelectric Projects Revenue Bonds, Series 2009A (Federally Taxable), Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) and Series 2009C (Tax-Exempt) (collectively, the “*Series 2009A-C Hydroelectric Bonds*”) to finance, among other things, additional costs associated with the Cannelton facility and Smithland facility and to provide a portion of the funds required to redeem the Hydro BANs in advance of their April 1, 2010 maturity date. On December 2, 2009, AMP issued \$22,600,000 aggregate principal amount Combined Hydroelectric Projects Revenue Bonds, Series 2009D (Federally Taxable – Clean Renewable Energy Bonds) (the “*Series 2009D Hydroelectric Bonds*” and, collectively with the Series 2009A-C Hydroelectric Bonds, the “*Combined Hydroelectric Bonds*”) to provide a portion of the funds to currently refund the Hydro BANs. The Combined Hydroelectric Bonds are payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

Of the 48 Members participating in the Meldahl Projects, 44 Members, including Bowling Green and Cleveland, Ohio, Coldwater, Michigan, Danville, Virginia and Paducah, Kentucky, all Large Participants described in APPENDIX B, are also participating in the Combined Hydro Project.

As noted above, AMP currently anticipates the receipt in late 2010 of the final permits required to commence construction of the Willow Island project. Subject to favorable market and other conditions, AMP expects to issue up to \$1.4 billion additional bonds the week of December 20, 2010 to finance increased costs at its Cannelton and Smithland projects and the cost of constructing the Willow Island project.

*Other Hydroelectric Projects.* AMP is also evaluating other hydroelectric generating facilities, including the R.C. Byrd hydroelectric project (the “*R.C. Byrd Project*”), which would be a run-of-the-river hydroelectric facility located at the R.C. Byrd Locks and Dam on the Ohio River. The City of Wadsworth, Ohio (“*Wadsworth*”), an AMP Member, has been issued a preliminary permit to file a license application for the R.C. Byrd Project. This permit gives Wadsworth the exclusive right to file the first application for the FERC license and precludes other developers from filing before Wadsworth. AMP, on behalf of Wadsworth, has filed a Pre-Application Document with FERC and anticipates filing the License Application before April 1, 2011.

## THE PARTICIPANTS

### GENERAL

Each of the Participants is a Member of AMP. The Electric Systems owned by the Participants provide, among other things, electric utility service primarily to retail consumers located in their respective service areas. With the exception of the City of Cleveland, Ohio, each Participant is the only authorized supplier of electricity within its corporate limits. Cleveland is in direct competition with Cleveland Electric & Illuminating (“*CEI*”), an operating company of First Energy Corporation.

## **PROJECT SHARES**

The 48 Participants, together with their respective Project Shares (in kW), are listed in Appendix A hereto. Hamilton has a Project Share of 51.43%. The Project Shares of the Participants with the next five largest Project Shares aggregate 24.80% of all the Participants' Project Shares. These six Participants, the Cities of Hamilton, Cleveland, Wadsworth and Orrville, Ohio, the City of Danville, Virginia and the City of Paducah, Kentucky (the "Large Participants") with Project Shares aggregating over 75% of all the Project Shares, have been designated by AMP as materially "obligated persons" for purposes of Rule 15c2-12 (as hereinafter defined). Appendix B to this Official Statement contains certain financial and other information about the Large Participants. Under the terms of the Power Sales Contract, AMP may designate other Participants as materially obligated persons. See "CONTINUING DISCLOSURE AGREEMENT."

## **POWER SUPPLY**

In late 2006, AMP contracted with R. W. Beck, an SAIC Company ("*R.W. Beck*") to develop long-term power supply plans for its Members. R. W. Beck prepared a report for 119 Members that included a 20-year load forecast, a 20-year optimal power supply plan and the key inputs and assumptions used to develop the plan. In accordance with the Power Sales Contract, R.W. Beck prepared an analysis to determine if each Participant could beneficially utilize its Project Share.

In June 2009, R.W. Beck was engaged by AMP to prepare a 20-year power supply plan ("*June 2009 Power Supply Plan*") for its Members. The June 2009 Power Supply Plans for 126 Members were developed based on the same method as the original power supply plans prepared in 2007. The June 2009 Power Supply Plan for each Member consisted of a "Base Case", which included the existing generating resources that each Member owns, existing generating resources that AMP owns and operates on behalf of the Members, and the future generating resources that each Member has under contract with AMP. The future resources included the Project, the Combined Hydroelectric Projects, AMPGS, PSEC and the Greenup Project. The "Optimal Resource Plan" indicated the generating resource additions each Member should consider during the 2012-2031 period to minimize expected power supply costs. In addition to the Optimal Resource Plan, the June 2009 Power Supply Plan for each Member included an alternative scenario plan that considered the impacts of implementing the AMP Energy Efficiency programs on each Member's resource decisions. The Optimal Resource Plan (with the AMP Energy Efficiency programs) reflected an aggregate of 285 MW of additional hydroelectric capacity (which consists of 105 MW from the Project, AMP's 34.1 MW ownership interest in the 70.2 MW Greenup project, and 110 MW of other future hydroelectric capacity), 697 MW of combustion turbine capacity and 1,007 MW of combined cycle capacity to be installed by 2020.

Appended as APPENDIX H-2 is the "Market Comparison and Beneficial Use Analysis" prepared by R.W. Beck. In it report, R.W. Beck compares the estimated costs to the Participants of power from the Project to its projections of market prices and provides an analysis of the ability of the Participants to use beneficially their respective Project Shares of the Project.

## **ENFORCEABILITY OF CONTRACTS AND BANKRUPTCY**

The enforceability of the various legal agreements relating to the Project and the Series 2010A-D Bonds may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors or secured parties generally and by the exercise of judicial discretion in accordance with general principles of equity. The Power Sales Contract, the AMP-Hamilton Agreements and the other Agreements relating to the Project are executory contracts. If AMP or any of the parties with which AMP has contracted under such agreements (including the Power Sales Contract) is involved

in a bankruptcy proceeding, the relevant agreement could be discharged in return for a claim for damages against the party's estate with uncertain value. In such an event, the Gross Receipts could be materially and adversely affected. Similarly, in the event that AMP is involved in a bankruptcy proceeding, exercise of the remedies afforded to the Trustee under the Indenture may be stayed.

*AMP.* Because the Project is owned by Meldahl, LLC and AMP is at all times acting as agent for Meldahl, LLC, a bankruptcy by AMP may not subject the Project or AMP-Hamilton Agreements to the jurisdiction of a bankruptcy court or trustee where AMP is debtor under the Bankruptcy Code. Nevertheless, in the event of a bankruptcy of AMP, a party in interest might take the position that the remittance to the Trustee by AMP of the payments received from the Participants pursuant to the Power Sale Contract constitutes a preference under bankruptcy law if such remittance were deemed to be paid on account of a preexisting debt, subject to the availability of certain exceptions and defenses. If a court were to hold that the remittance of funds constitutes a preference, any such remittance within 90 days of the filing of the bankruptcy petition could be avoidable, and funds could be required to be returned to the bankruptcy estate of AMP.

*Municipal Bankruptcy.* Chapter 9 of the Federal Bankruptcy Code (the "*Bankruptcy Code*") contains provisions relating to the adjustment of debts of a state's political subdivisions, public agencies and instrumentalities (each an "eligible entity"), such as the Participants. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in a material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its bonds and notes.

In almost all cases, political subdivisions, public agencies and instrumentalities must have specific statutory authorization under state law to constitute an eligible entity. Moreover, prior to initiating any Chapter 9 proceedings certain otherwise eligible entities must first participate in a state-sponsored rehabilitation process before filing a Chapter 9 petition. See "*Ohio Participants*" and "*Michigan Participants*" herein.

*Ohio Participants.* The State Auditor is charged with monitoring the fiscal health of Ohio municipal corporations. On the request of a municipal corporation, or upon the occurrence of certain triggering events, such as casual general fund deficits exceeding a certain threshold, the State Auditor may place any municipal corporation in fiscal watch ("*Fiscal Watch*"). If a municipal corporation is placed on Fiscal Watch, the State Auditor will provide various administrative and technical expertise, at the state's expense, in an effort to alleviate the conditions which led to the Fiscal Watch.

Again, on the request of a municipal corporation, or upon the occurrence of certain more onerous triggering events, such as large general fund deficits or a default on debt obligations, the State Auditor may place a municipal corporation in fiscal emergency ("*Fiscal Emergency*"). If a Fiscal Emergency is determined to exist, the municipality is subjected to state oversight through a seven-member Financial Planning and Supervision Commission (the "*Commission*"). The Commission is assisted by certified public accountants designated as the Financial Supervisor to be engaged by the Commission. The Auditor of State may also be required to assist the Commission.

The Commission or, when authorized by the Commission, the Financial Supervisor, among other powers, shall require the municipal corporation to establish monthly levels of expenditures and encumbrances consistent with the financial plan and shall monitor such monthly levels and require justification to substantiate any departure from an approved level. Expenditures may not be made contrary to an approved financial plan. Moreover, the Commission must approve the issuance of additional cash

flow or long-term borrowing and may require the use of certain credit enhancements, such as the use of a fiscal agent to handle debt service payments, in connection with the issuance of such indebtedness.

A municipality must develop and submit a detailed financial plan for the approval or rejection of the Commission; develop an effective financial accounting and reporting system; prepare budgets, appropriations and expenditures that are consistent with the purposes of the financial plan; and may only issue debt on a limited basis, the purpose and principal amount of which must be approved by the Commission.

The Ohio Revised Code permits a political subdivision, such as any of the Ohio Participants, upon approval of the State Tax Commissioner, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. The taxing authority of such subdivision may, upon like approval of the State Tax Commissioner, refund its outstanding securities, whether matured or unmatured, and exchange bonds for the securities being refunded. In its order approving such refunding, the State Tax Commissioner shall fix the maturities of the bonds to be issued, which shall not exceed thirty years. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

*Michigan.* Pursuant to the Local Government Fiscal Responsibility Act, the State Treasurer is charged with monitoring the fiscal health of certain Michigan political subdivisions, including cities and villages. The State Treasurer, upon the occurrence of certain financial conditions, at the request of a local government or the passage of a resolution requesting review by either of the houses of the Michigan Legislature, may commence a fiscal review of a local government to determine the existence of a potential financial emergency. The findings of such review are presented to the Governor, who must determine whether a “local government fiscal emergency” exists. The Governor’s review is informed by the findings and investigations of a review team appointed by the Governor.

If the Governor determines that a local government fiscal emergency exists, an emergency financial manager, to whom the Governor is to assign responsibility for managing the local government fiscal emergency following such a determination, is appointed by the local emergency financial assistance loan board of the State. The emergency financial manager is tasked with creating and implementing a financial plan to return the affected local government to firm fiscal footing. During the term of the appointment, the emergency financial manager has broad discretion to manage the financial affairs of the affected local government.

If the emergency financial manager, determines that no feasible financial plan can be adopted to resolve satisfactorily the financial emergency in a timely manner, the emergency financial manager may authorize the local government to file for bankruptcy under Chapter 9 of the federal Bankruptcy Code, provided that such authorization is not disapproved by the local emergency financial assistance loan board within 60 days of receipt by that board of notice from the emergency financial manager.

*Virginia.* The existing law of Virginia does not specifically authorize, as required by the Bankruptcy Code, its municipalities to file for bankruptcy under the Bankruptcy Code. Virginia does not have statutory provisions respecting fiscal emergencies of municipalities or their public utilities similar to those of the provisions of Ohio and Michigan law discussed above.

*Kentucky.* Kentucky law provides that its municipalities may file for bankruptcy under the Chapter 9 of the Bankruptcy Code.

## **CERTAIN FACTORS AFFECTING AMP, THE PARTICIPANTS AND THE ELECTRIC UTILITY INDUSTRY**

### **GENERAL**

Various factors will affect the operations of AMP and the electric utility systems operated by the Participants, as well as the sellers and transmitters of electric power. They include, for example: (a) retention of existing retail customers by Participants, (b) local, regional and national economic conditions, (c) the market price of electricity and the market price of alternate forms of energy, (d) the price of commodities and equipment used in electric generating facilities, (e) energy conservation measures, (f) the availability of alternative energy sources, (g) climate conditions, (h) government regulation and deregulation of the energy industries, (i) the price and availability of transmission service, and (j) technological advances in fuel economy and energy generation devices.

AMP is unable to predict the impact of the foregoing factors, and other factors, on the Participants and their electric operations. However, the electricity supply and services to be provided by AMP are intended to maintain and improve the competitive position of the Participants by providing them with services and with competitive prices for all or a portion of their required electricity supply.

### **TRANSMISSION AND RTOS**

In 1996, pursuant to the Energy Policy Act of 1992 (*"EPACT 1992"*), FERC in Order No. 888 required utilities under FERC jurisdiction to provide access to their transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. In 2007, FERC issued another rulemaking order that is meant to fine-tune the Open Access Transmission Tariff setting minimum standards for transmission owners.

In 1999, FERC in Order No. 2000 adopted regulations aimed at promoting the formation of regional transmission organizations (*"RTOs"*), which would be established as the sole providers of electric transmission services in large regions of the country, each of which would encompass the service territory of several (or more) electric utilities. These RTOs would operate and control, but would not own, the transmission facilities, pursuant to contracts with the transmission owners. All of the transmission owning utilities in Ohio have joined RTOs. Although AMP and the Participants are not for most purposes subject to the jurisdiction of FERC, they have been and will continue to be significantly affected by the establishment of RTOs in Ohio and the region.

Currently, the investor owned electric utilities in Ohio have joined RTOs as follows: American Electric Power (Columbus Southern Power and Ohio Power) and Dayton Power & Light Company are participants in the PJM Interconnection; Duke Energy (Cincinnati Gas & Electric Company) and FirstEnergy (Cleveland Electric Illuminating, Toledo Edison, Ohio Edison and American Transmission Systems, Inc), are participants in MISO.

On August 17, 2009, FirstEnergy filed, on behalf of its American Transmission Systems, Inc. subsidiary, at the Federal Energy Regulatory Commission in Docket No. ER09-1589 for approval of the termination of ATSI's participation as a transmission owner and operator in the Midwest ISO regional transmission organization and for certain findings regarding ATSI's intent to participate in the PJM Interconnection regional transmission organization. FirstEnergy claimed, among other things, that its transmission systems are better integrated with PJM-member systems than with MISO-member systems and that the realignment will produce greater efficiencies and reduced transmission congestion. FirstEnergy asked the FERC to issue a decision by December 17, 2010, which would allow FirstEnergy to participate in PJM's May, 2010 Base Residual Auction, the first step toward FirstEnergy's planned complete integration into PJM by June 1, 2011. FERC accepted the proposed First Energy RTO



realignment in an order issued December 17, 2009. FE will make additional filings in the future to address issues such as the conversion of existing transmission service.

On May 20, 2010, Duke announced that the Duke Ohio and Kentucky operating companies would withdraw from MISO and join PJM effective January 1, 2012. Duke submitted a filing on the proposed realignment to FERC on June 25, 2010. Duke acknowledged that there are many details that must be addressed to accomplish the RTO realignment and stated that it would address those issues in future filings. Duke requested that FERC provide a preliminary acceptance of the proposed RTO realignment by November 1, 2010. AMP has intervened in the docket on behalf of its Members. On October 21, 2010, FERC conditionally accepted Duke's RTO realignment request, subject to the satisfaction of certain conditions.

The nature and operations of these RTOs are still evolving, and AMP cannot predict whether their existence will meet FERC's goal of reducing transmission congestion and costs and creating a competitive power market.

## **ELECTRIC SYSTEM RELIABILITY**

Pursuant to the directives in the Energy Policy Act of 2005 ("*EPACT 2005*"), FERC embarked on a process leading in 2007 to the creation of an Electric Reliability Organization with national responsibility for the reliability of the electric grid and the imposition of 83 distinct reliability standards applicable to owners, operators and users of the bulk power system. AMP is required to satisfy certain of these standards, and, depending upon their size and the nature of their operations, some of AMP's Members are, as well.

## **FEDERAL ENERGY LEGISLATION**

*The Energy Policy Act of 1992.* EPACT 1992 made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by EPACT 1992, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPACT 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities that are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

*The Energy Policy Act of 2005.* EPACT 2005 addressed a wide array of energy matters affecting the entire electric utility industry, including AMP and the electric systems of the Participants. It expands FERC's jurisdiction to require open access transmission by municipal utilities that sell more than four million megawatt hours of energy annually and to order the payment of refunds under certain circumstances by municipal utilities that sell more than eight million megawatt hours of energy annually. No Participant is able to predict when, if ever, its sales of electricity would reach either four million or eight million megawatt hours, although no Participant now sells more than 1.7 million megawatt hours annually. EPACT 2005 provided for mandatory reliability standards to increase the electric grid's reliability and minimize blackouts, criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. EPACT 2005 also authorized FERC to issue a permit

authorizing the permit holder to obtain transmission rights of way by eminent domain if FERC determines that a state or locality has unreasonably withheld approval and if the facilities for which the permit is sought will significantly reduce transmission congestion in interstate commerce and protect or benefit consumers;. EPACT 2005 contained provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies. EPACT 2005 also extended for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants.

## **DEREGULATION LEGISLATION**

Because of the number and diversity of prior and possible future proposed bills on this issue, AMP is not able to predict the final forms and possible effects of all such legislation which ultimately may be introduced in the current or future sessions of Congress. AMP is also not able to predict whether any such legislation, after introduction, will be enacted into law, with or without amendment. Further, AMP is unable to predict the extent to which any such electric utility restructuring legislation may have a material, adverse effect on the financial operations of the Participants.

## **KENTUCKY LEGISLATION**

*General.* Kentucky has a historical patchwork of statutory schemes that generally permit municipalities to furnish utility services. Today, in most cases, those statutory schemes are historical relics and have been superseded by the Kentucky TVA Act. Enacted in 1942, the TVA Act is intended to be the “complete law” of Kentucky with respect to municipalities acquiring electric plants after June 1, 1942, and with respect to the operation of electric plants acquired by any municipality after June 1, 1942. All laws that conflict with the TVA Act have been expressly repealed.

The TVA Act vests all Kentucky municipalities, regardless of class, with the power and authority to establish, acquire, own and operate “electric plants.” The TVA Act broadly defines “electric plant” as “any plant, works, systems, facilities, and properties (including poles, wires, stations, transformers, and any and all equipment and machinery), together with all parts thereof and appurtenances thereto, used or useful in the generation, production, transmission, or distribution of energy.”

Kentucky municipalities that operate an electric plant under the TVA Act are managed by a board consisting of four (4) residents of the municipality appointed by the mayor or chief executive. The board has the power and capacity to perform any act not repugnant to law and has the express power and capacity to do any act or thing necessary or convenient for carrying out its statutory purpose.

A municipality providing electric service is generally (with limited exceptions) not subject to direct competition and has the right to determine how electricity will be sold within its borders. A municipality operating an electric plant under the TVA Act is forbidden from entering into competition with rural electric cooperative corporations or electric plants operated by another municipality, but may enter into cooperative agreements and/or seek franchises to provide electric service in other municipalities under certain circumstances.

A Public Service Commission regulates the intrastate rates and services of investor-owned electric utilities and customer-owned electric cooperatives. The Commission has regulatory responsibility for rate increases or reductions, expansion or reduction of utility service boundaries, construction and operation of utility facilities and compliance with service and safety regulations, amongst other things. Generally, retail electric suppliers have the exclusive right to furnish retail electric service to all electric-consuming facilities located within its certified territory and are forbidden from furnishing its retail electric service to a consumer located within the certified territory of another retail electric supplier.

Municipally owned or operated electric utilities are generally not subject to the authority or regulation of the Kentucky Public Service Commission except in limited circumstances.

*Deregulation.* Kentucky has not deregulated its electric utility industry. In 1998, the Kentucky legislature rejected a bill providing for retail choice. Instead, the governor of Kentucky signed House Joint Resolution 95 (HJR 95), which created the Kentucky Task Force on Electric Restructuring. On December 13, 1999, the Task Force on Electric Energy Restructuring issued a report recommending no action based on the belief that restructuring at that time would likely lead to higher or more variable rates. In June 1999, Resource Data International conducted a study for the Kentucky Special Task Force on Electricity Deregulation which indicated that increased competition could actually increase retail prices in Kentucky. On August 10, 2000, the Task Force on Energy Restructuring issued its final report to the Kentucky General Assembly. The August 10, 2000 report, incorporating the December 13, 1999 report, concluded that there was “no compelling reason” to quickly proceed with restructuring. Accordingly, Kentucky currently does not have statutes similar to those in Ohio concerning electric utility competition.

In 2000 Kentucky enacted House Bill 897 (HB 897) to prohibit regulated utilities from using revenues to fund unregulated affiliates and from including expenses of unregulated affiliates in the rate base. HB 897 requires separate recordkeeping and requires the Public Service Commission to establish uniform procedures for cost allocation between the regulated utility and unregulated affiliates.

*Net-Metering.* KRS 278.466, enacted in July 2008, requires that retail electric suppliers (excluding municipality owned or operated electric utilities) make net metering available to any eligible customer-generator that the supplier services or solicits. The statutes also provide rules for the billing of net electricity.

*Recent Legislation.* In recent years Kentucky has enacted several tax incentives for businesses and individuals to install renewable energy systems and to install energy efficiency products for residential and commercial properties. In 2008, Kentucky created the Kentucky Bluegrass Turns Green Program and established a public sector grant fund for engineered demand-side management projects in public sector buildings and a loan fund to provide low-interest loans to the private sector for engineered demand-side management projects in private sector buildings. These and other similar laws have the potential to reduce the amount of energy that consumers purchase.

*2010 Legislation.* Following are summaries of certain energy-related bills that were passed in the 2010 session of the Kentucky General Assembly and approved by the Governor. Each bill became law effective July 15, 2010. These provisions have no direct impact on Kentucky municipal power systems, except to the extent HB 240 and SB 132 may reduce consumer demand.

*HB 240:* This bill declares it to be public policy to maximize the use of energy efficiency measures in the construction, renovation, and maintenance of buildings owned or leased by the Commonwealth. This bill further establishes the Energy Efficiency Program for State Government Buildings to provide low cost/no cost energy conservation measures, engineering analyses, energy efficiency measures, building improvements and monitoring of results for state-owned or state- leased buildings.

*HB 552:* The bill expands incentives for approved companies for the production of alternative energy to include the production of energy-efficient alternative fuels.

*HB 589:* Allows a severance tax credit for natural gas or natural gas liquids used as feedstock at an alternative transportation facility. The bill also includes natural gas or natural gas liquids as a

permissible feedstock for an alternative transportation facility, and establishes a minimum investment level of \$1,000,000 for such facilities. Finally, the bill includes natural gas-derived liquid fuels in the definition of "alternative transportation fuels."

*SB 132:* This bill supports the construction of new school buildings and the renovation of existing school buildings to create a healthy environment for students and teachers while saving energy, resources and operational expenses. The bill also encourages the use of a life-cycle cost consideration of school design, construction, operation and maintenance in the initial decision-making process in order to lower operating costs and increased asset value, reduce waste sent to landfills, conserve energy and water, reduce storm drainage runoff and reduce emissions of greenhouse gases.

*HB 28:* This bill establishes a Water Transportation Advisory Board as an advisory body to the executive and legislative branches of government. The bill directs the Board to advise the Transportation Cabinet, the Cabinet for Economic Development, the Governor's Office and the General Assembly on matters relating to water transportation, recommend ways for the Commonwealth to make best use of its waterways and riverports for economic growth, and help define the duties and functions of positions within state government responsible for water transportation.

*Future Legislation.* In November 2008, Kentucky released an extensive energy plan outlined in a document entitled *Intelligent Energy Choices for Kentucky's Future*. The energy plan is not legislation; although, it generally outlines the states energy-related goals of 1) improving the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet, 2) increasing Kentucky's use of renewable energy, 3) sustainably growing Kentucky's production of biofuels, 4) developing a coal-to-liquids industry in Kentucky to replace petroleum-based liquids, 5) implementing a major and comprehensive effort to increase gas supplies, including coal-to-gas in Kentucky, 6) initiating aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky, and 7) examining the use of nuclear power for electricity generation in Kentucky. If and when Kentucky enacts energy legislation in the future, the particular effect on electric utilities, including municipally owned electric utilities, is not clear.

## **MICHIGAN LEGISLATION**

*General.* In 2000, the Michigan legislature enacted a package of bills intended to provide the framework for re-structuring and partially de-regulating a portion of the electricity market in Michigan. This legislation introduced customer choice programs and froze rates for investor owned utilities for a period of time. Except as described below, however, this legislation did not directly impact municipal-owned utilities.

Under Michigan law, Michigan municipalities are authorized to establish electric systems to provide service within the boundaries of the municipality and in a limited amount of territory outside those boundaries. Michigan municipal utility electric rates are not subject to approval by the Michigan Public Service Commission or any other entity, except for the governing bodies of the utility and the municipality.

With respect to service within the borders of a municipality providing electric service, the municipality is generally (with limited exceptions) not subject to direct competition, since under the Michigan constitution, utilities may not operate within any city, village or township without the consent of and receiving a franchise from, that municipality.

Utilities may compete with a municipality for new (not presently being served) customers located outside of the borders of a municipality if the utility has or can acquire a necessary franchise and any

required certificate of convenience and necessity from the Michigan Public Service Commission. With respect to services provided by alternative electric suppliers, no person shall provide delivery service or customer account service to a customer of a municipal electric utility without the written consent of the municipal utility, so long as the municipal utility allows all customers living outside its boundaries the option of choosing an alternative electric supplier.

*Recent Legislation.* In March of 2008, Michigan enacted into law amendments to the act under which joint power agencies in Michigan are organized. These amendments provided for, among other things, the power of municipalities which are members of a joint agency, and the joint agencies themselves, to enter into power acquisition contracts with “take or pay” and “step up” provisions, as are provided in the Power Sales Contracts.

Effective October 6, 2008, Michigan enacted Renewable Energy Portfolio Standards and Energy Optimization requirements, which apply to, among other entities, municipally-owned utilities. Pursuant to the statute and Michigan Public Service Commission orders, municipally-owned utilities filed plans for compliance with these new statutes in early April 2009. Regarding Renewable Energy Portfolio requirements, the new statute requires, subject to certain conditions, limitations and rate caps, municipally-owned electric utilities to serve by 2015 10% of their energy requirements with qualified renewable energy resources. Regarding Energy Optimization, the new statute requires utilities to either: (a) file and implement a plan which produces incremental energy savings each year up to a maximum requirement of 1% of retail sales in a prior year; or alternatively (b) pay up to 1.0% of a prior year’s revenues to a independent energy optimization program administer selected by the Michigan Public Service Commission.

In 2009, Michigan enacted legislation which applied certain limitations on shut-off remedies to municipally owned utilities, with civil penalties for failure to comply. These limitations are similar to those imposed on investor owned utilities.

## **OHIO LEGISLATION**

*General.* Article XVIII, Section 4, of the Ohio Constitution provides in part that “any municipality may acquire, construct, own, lease and operate within or without its corporate limits any public utility the product or service of which is or is to be supplied to the municipality or its inhabitants, and may contract with others for any such product or service”.

In 1999, Ohio lawmakers adopted Senate Bill 3, legislation implementing retail electric competition in investor owned utility service areas beginning January 1, 2001. Ohio was the 24th state to adopt “customer choice” legislation and passage of this bill followed years of debate. Senate Bill 3, however, did not mandate customer choice for municipal electric systems, and the decision of whether an Ohio municipality offers retail electric competition remains a decision of each municipality.

Customer choice had been slow to develop throughout the early 2000s. With the end of the Market Development Period approaching in 2005, the Public Utilities Commission of Ohio (“PUCO”) urged the investor-owned utilities (“IOUs”) to file rate stabilization plans (“RSP”) in an effort to provide retail electric price stability for their customers. These RSPs were approved and have since expired for American Electric Power, Duke Energy and FirstEnergy, and will expire in 2010 for Dayton Power and Light.

On May 1, 2008, the Governor signed into law Senate Bill 221, comprehensive legislation to update the laws governing the electric industry. The bill is designed primarily to address the post-2008 retail electric market for investor-owned utility areas in Ohio. The major provisions of the legislation as

highlighted below apply directly to the state's four IOUs. Ohio's municipal electric systems and rural electric cooperatives maintain local decision-making authority. Staff and counsel to the OMEA (legislative liaison to 81 Ohio municipal electric systems and to AMP) were successful in including favorable language regarding customer switches and treatment of hydroelectric facilities in the legislation. PUCO has completed the regulatory implementation of the legislation.

*Customer Choice (ORC 4928.141; 4928.142; 4928.143).* Senate Bill 221 preserves the ability of utilities to go to competition, but initially requires the four IOUs in Ohio to file electric security plans (“ESPs”). The IOUs each then have the option to file a market rate option. FirstEnergy is the only IOU that filed a market rate option and the PUCO has not yet approved its application. All four IOUs are currently operating under ESPs. *These provisions have no direct impact on Ohio municipal electric systems or AMP.*

*Alternative Energy Portfolio Standard (ORC 4928.64).* In addition to the provisions addressing retail electric rates for investor-owned utilities, the bill also includes an alternative energy portfolio standard (“AEPS”) that requires the state’s IOUs to supply 25 percent of their power from alternative energy resources by 2025, with benchmarks beginning in 2009. The proposal requires that at least half of the 25% come from renewable energy, and a requirement that half the renewable energy come from Ohio projects. *This provision has no direct impact on Ohio municipal electric systems or AMP, as they – as well as the rural electric cooperatives – are not mandated into the AEPS.*

*Compliance with AEPS (ORC 4928.65).* As noted above, the state’s investor-owned utilities are required to provide 25% of their power from alternative energy resources, with at least half coming from renewable energy resources. Benchmarks for compliance with the mandate began in 2009. Utilities may use renewable energy credits, up to five years after purchase or acquisition, to help meet their renewable energy obligation. The PUCO has developed rules for which renewable energy resource credits qualify, and the provision is clear that hydroelectric facilities brought online after 1998 and located in Ohio or in an adjoining state will qualify. AMP and other stakeholders continue to participate in the certification process to ensure that all of AMP’s and Members’ existing renewable generation assets qualify. *This provision is important to Ohio municipal electric systems and to AMP in that it is here that the rules setting forth which renewable energy resource will qualify would be developed and would ultimately provide the best value for the renewable energy credit from AMP’s existing and proposed renewable resources.*

*Energy Efficiency Standard (ORC 4928.66).* In general, the bill requires IOUs to implement energy efficiency programs that can include demand-response programs, customer-sited programs, and transmission and distribution infrastructure improvements that reduce line loss. The standard includes benchmarks that began in 2009 and ultimately reach 22% by 2025. *This provision has no direct impact on Ohio municipal electric systems or AMP, as they – as well as the rural electric cooperatives – are not mandated into the energy efficiency standard.*

*Customer Switches (ORC 4928.69).* The legislation includes beneficial language designed to ensure that customer switches from IOUs to existing municipal systems will not be subject to surcharges, service termination charges, exit fees or transition charges.

*Federal Energy Advocate (ORC 4928.24).* The PUCO shall employ a federal energy advocate to monitor the activities of FERC and other federal agencies and to advocate on behalf of Ohio retail electric service customers. Among the duties assigned to the new position, the advocate shall examine the value of the participation of electric utilities in regional transmission organizations, and to issue a report on whether continued participation of those utilities is in the interest of those consumers. The PUCO opened a formal proceeding to begin discussions on this topic, and AMP has been engaged in the process through

filings on the case docket, and working with coalition partners on issues of mutual concern. *The creation of such an advocate and review of regional transmission organizations has long been supported by AMP and OMEA.*

*Greenhouse Gas Emission Reporting (ORC 4929.68).* Senate Bill 221 includes a provision directing the PUCO to adopt rules establishing greenhouse gas reporting requirements, including participation in the Climate Registry, and carbon dioxide control planning requirements for each electric generating unit, including existing facilities, owned or operated by a public utility subject to jurisdiction by the PUCO. The legislation and statute are clear that this provision applies only to utilities regulated by the PUCO. *Although not required to participate in the state-mandated programs, AMP has joined the Chicago Climate Exchange and is a partner in the Midwest Regional Carbon Sequestration Project.*

## **VIRGINIA LEGISLATION**

*General.* Virginia municipal corporations are authorized by statute, and in some instances by charter, to acquire, establish, and operate public utilities for the generation and distribution of electricity. The powers of cities and towns to operate such public utilities (with a minor exception relating to service areas) and the rates charged to customers are not generally regulated by Virginia's State Corporation Commission ("SCC").

In 1999, the Virginia General Assembly adopted Senate Bill 1269 entitled the Virginia Electric Utility Restructuring Act ("*Restructuring Act*"). This comprehensive legislation provided for the deregulation of the generation component of electric service while transmission and distribution remained as regulated services. The Restructuring Act provided for customer choice of generation providers to be phased in, and during the transition from fully regulated electricity prices to generation customer choice, capped rates for electricity service were in effect. The Restructuring Act contained numerous additional provisions and was significantly amended in subsequent years. *As amended, the Restructuring Act specifically exempts municipal power systems from retail competition and other Restructuring Act provisions unless a municipality operating them (a) elects to become subject to such provisions or (b) competes for certain electric customers outside the service territories served by their systems as of 1999 (Va. Code §56-580 F).*

In 2007, the Virginia General Assembly passed House Bill 3068/Senate Bill 1416 (Chapters 888 and 933 of the 2007 Acts of the General Assembly) which have been referred to as the electricity "re-regulation" legislation. This legislation became effective on July 1, 2007. It amended the Restructuring Act and other statutes by largely ending Virginia's approximately ten year experiment with deregulation and by restoring full cost-of-service regulation by the SCC. In addition, the legislation provided incentives for utilities to build new generation to meet growing demand and to add environmental equipment at their power stations. It also provided incentives for utilities to invest in renewable forms of energy and demand-side management and conservation programs. In 2008, the Virginia General Assembly further amended the Restructuring Act and renamed it the Virginia Electric Utility Regulation Act. *The re-regulation legislation maintained the Restructuring Act's exemption for municipal power systems.*

*Customer Choice.* Capped rates ended on December 31, 2008, and retail choice generally has been eliminated for all but individual retail customers with a demand of more than 5 megawatts and non-residential retail customers who obtain SCC approval to aggregate their load to reach the 5 megawatt threshold, subject to a cap of 1% of peak load of the customers' electric utility. In addition, individual retail customers are permitted to purchase renewable energy from competitive suppliers if the incumbent electric utility does not offer a tariff approved by the SCC for the sale of electric energy provided 100 percent from renewable energy (Va. Code § 56-577). In December 2008, the SCC determined that tariffs

proposed by Dominion Virginia Power and Appalachian Power for the sale of renewable energy credits do not constitute a sale of electrical energy provided 100 percent from renewable energy. As a result, customer choice remains in effect for electrical energy provided 100 percent from renewable energy for customers of these companies, which are the two largest investor-owned utilities in Virginia. *These provisions have no direct impact on Virginia municipal power systems.*

*Renewable Energy.* The 2007 “re-regulation” legislation established a voluntary Renewable Portfolio Standard (“RPS”) program with the goal of meeting 12% of annual electric energy use by 2022 from renewable sources. “Renewable energy” generally means energy derived from sunlight, wind, falling water, sustainable biomass, energy from waste, municipal solid waste, wave motion, tides, and geothermal power, and does not include energy derived from coal, oil, natural gas or nuclear power. The RPS goals, as amended, are 4% in 2010, 7% in 2016, 12% in 2022 and 15% in 2025. Participating utilities will be awarded an additional .5% on their authorized rate of return upon achieving and maintaining these goals. The legislation provides an additional 2 percent return for utility investments in generating facilities using renewable energy (Va. Code §§ 56-585.1 and 56-585.2). *These provisions have no direct impact on Virginia municipal power systems.*

*Energy Conservation.* The “re-regulation” legislation provided that Virginia shall have a stated goal of reducing the consumption of electric energy by retail customers through the implementation of demand side management, conservation, energy efficiency, and load management programs, including consumer education, by the year 2022 by an amount equal to ten percent of the amount of electric energy consumed by retail customers in 2006. In December 2007, the SCC Staff reported that the 10% electric energy consumption reduction goal is attainable. *These provisions have no direct impact on Virginia municipal power systems.*

*Integrated Resource Planning.* In 2008, legislation was adopted requiring investor-owned electric utilities to submit an integrated resource plan by September 1, 2009. Among other things, these plans include: a forecast of the utility’s load obligation; a plan to meet those obligations by supply-side and demand-side resources over a 15-year time period; goals of providing reasonable prices, reliable service, energy independence, and environmental responsibility; and a requirement to evaluate investments in demand-side resources (Va. Code § 56-597 *et seq.*). In addition, the SCC has adopted Integrated Resource Planning Guidelines. *These provisions have no direct impact on Virginia municipal power systems.*

*2009 Legislation.* House Bill 1646 was an energy-related bill that was passed in the 2009 session of the Virginia General Assembly, approved by the Governor, and became law effective July 1, 2009. It amended and reenacted § 9-7, as amended, of Chapter 657 of the Acts of Assembly of 1982. This bill revised the charter of the City of Danville, an AMP Member and Participant, by raising the amount of bonds which the city can issue without a referendum. Other changes gave the city greater flexibility in financing electric power transmission and distribution facilities.

*2010 Legislation.* Following are summaries of certain energy-related bills that were passed in the 2010 session of the Virginia General Assembly and approved by the Governor. Each bill became law effective July 1, 2010. *These provisions have no direct impact on Virginia municipal power systems, except (i) House Bill 27/Senate Bill 12, (ii) House Bill 672, and (iii) House Bill 1300/Senate Bill 128.*

*House Bill 27/Senate Bill 12.* This bill converts Bristol Virginia Utilities into a new authority, to be known as the BVU Authority, which will own and operate the electric and other utility facilities of the City of Bristol. It amends and reenacts Va. Code § 15.2-2160 and adds in Title 15.2 a chapter numbered 72, consisting of sections numbered 15.2-7200 through 15.2-7226.



*House Bill 88.* This bill authorizes electric cooperatives, upon a customer's request, to install and operate prepaid metering equipment and a system that will terminate electric service immediately and automatically when the customer has incurred charges for electric service equal to the amount prepaid by the customer. It amends and reenacts Va. Code § 56-247.1.

*House Bill 92.* This bill allows electric cooperatives to offer 100 percent green power in the form of renewable energy certificates for those members who wish to purchase them. It amends and reenacts Va. Code § 56-577.

*House Bill 672.* This bill creates the Virginia Infrastructure Project Loan Fund, which will be administered by the Virginia Resources Authority. Money in the Fund would be used exclusively for the financing of landfill gas energy projects and sewerage system or wastewater treatment projects, including those undertaken by a municipality to generate electric energy from gas generated at such facilities. The measure also specifies that a landfill gas energy project constitutes a "project" under the Virginia Resources Authority Act. It amends and reenacts Va. Code §§ 62.1-198 and 62.1-199 and adds in Title 15.2 a chapter numbered 24.3, consisting of sections numbered 15.2-2430 through 15.2-2440.

*House Bill 1300/Senate Bill 128.* This bill retains the authority of the Commonwealth's Air Pollution Control Board to provide for participation in the EPA-administered cap and trade system for NO<sub>x</sub> and SO<sub>2</sub> to the fullest extent permitted by federal law. However, the bill prohibits the Board from requiring that electric generating facilities located in a nonattainment area, including those operated by a municipality, meet NO<sub>x</sub> and SO<sub>2</sub> compliance obligations without the purchase of allowances from in-state or out-of-state facilities. It amends and reenacts Va. Code § 10.1-1328.

*Senate Bill 110.* This bill expands the authority given to localities to provide loans for the initial acquisition and installation of clean energy improvements, such as distributed generation renewable energy sources and energy efficiency improvements. Specifically, it gives localities the power to place liens equal in value to the loan against any property where such clean energy systems are being installed. It further allows the locality to bundle the loans for transfer to private lenders in such a manner that would allow the liens to remain in full force to secure the loans. It amends and reenacts Va. Code § 15.2-958.3.

*Senate Bill 645.* This bill prohibits the State Corporation Commission from approving an agreement between a local governing body and an electric utility for the underground installation of an electric transmission line of at least 150 kilovolts if a feasible overhead alternative exists, unless all localities in which the line passes request that the line be installed underground. It amends and reenacts Va. Code § 15.2-2404.

*Significant Legislation Carried over to the 2011 Session.* Following are summaries of certain energy-related bills that were carried over to the 2011 session of the Virginia General Assembly. *These proposals in their current form would have no direct impact on Virginia municipal power systems.*

*House Bill 327.* This bill would establish an energy efficiency standard under which investor-owned electric utilities are required to reduce the consumption by their retail customers in the Commonwealth, through implementation of energy efficiency and conservation programs. By 2026, electric consumption would have to be reduced by 19 percent less than the consumption level currently projected for such year. Between 2011 and 2026, utilities would be required to meet interim benchmarks established by the State Corporation Commission.

*House Bill 675.* This bill would require the State Corporation Commission, as a condition of approving the construction of an underground or overhead transmission line, to establish

certain conditions to minimize adverse environmental impact and the aesthetic appearance of the right-of-way.

*House Bill 1236.* This bill would require investor-owned electric utilities and natural gas distribution companies to provide information to customers to support and encourage conservation actions. The bill would require the State Corporation Commission to determine the type of information and issue guidelines indicating what information is to be (i) included with customers' periodic bills, (ii) sent annually to customers in reports, and (iii) made accessible to customers on the Internet.

*House Bill 1274/Senate Bill 647.* This bill would require standing committees of the General Assembly to request that the State Corporation Commission or the Joint Legislative Audit and Review Commission prepare an assessment of the economic impact, on customers and public utilities in the Commonwealth, of any proposed state law or other mandate that affects the use, delivery, availability or regulation of energy in the Commonwealth. The assessment would be required to be completed within 24 months.

## **TAX LEGISLATION**

Bills have been and in the future may be introduced that could impact the issuance of tax-exempt bond or tax-advantaged bonds for transmission and generation facilities. AMP is unable to predict whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect would be. Such effect, however, could be material to the Participants.

## **LITIGATION**

AMP reports that there is no litigation pending or, to the knowledge of AMP, threatened against or affecting AMP, in any way questioning or in any manner affecting the validity or enforceability of the Series 2010A-D Bonds, the Power Sales Contract or the Indenture.

AMP is a party from time to time to litigation typical for electric utilities of its size and type. In the opinion of AMP's General Counsel, no such litigation is pending or, to his knowledge threatened, against AMP is material to the Project. Further, General Counsel is of the opinion that, except as described in this Official Statement, no such litigation is pending or, to its knowledge threatened, that would be material to the financial condition of AMP taken as a whole.

## **CONTINUING DISCLOSURE UNDERTAKING**

Pursuant to a Continuing Disclosure Agreement to be entered into by AMP simultaneously with the delivery of the Series 2010A-D Bonds (the "*Continuing Disclosure Agreement*"), AMP will covenant for the benefit of the Bondowners and the "Beneficial Owners" (as defined in the Continuing Disclosure Agreement) of the Series 2010A-D Bonds to provide, on an annual basis, by November 30 of each year, commencing with the report for AMP fiscal year ending December 31, 2010, certain financial information and operating data relating to Hamilton and the other Large Participants (the "*Annual Disclosure Report*"), and to provide notices of the occurrence of certain enumerated events with respect to the Series 2010A-D Bonds. Pursuant to Securities and Exchange Commission Rule 15c2-12 (as the same may be amended from time to time, "*Rule 15c2-12*"), the Annual Disclosure Report will be filed by or on behalf of AMP with the Municipal Securities Rulemaking Board ("*MSRB*"), through its Electronic Municipal Market Access ("*EMMA*") system, in the electronic format prescribed by the MSRB. The notices of such events will be filed by or on behalf of AMP with the MSRB. The specific nature of the information to be contained in the Annual Disclosure Report or the notices of events is set forth in the form of the

Continuing Disclosure Agreement attached hereto as APPENDIX I. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

As will be provided in the Continuing Disclosure Agreement, if AMP fails to comply with any provision of the Continuing Disclosure Agreement, any Bondowner or “Beneficial Owner” of the Series 2010A-D Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause AMP to comply with its obligations under the Continuing Disclosure Agreement. “Beneficial Owner” will be defined in the Continuing Disclosure Agreement to mean any person holding a beneficial ownership interest in Series 2010A-D Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of DTC). IF ANY PERSON SEEKS TO CAUSE AMP TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE AGREEMENT, IT IS THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A “BENEFICIAL OWNER” WITHIN THE MEANING OF THE CONTINUING DISCLOSURE AGREEMENT.

As described under APPENDIX G – “Book-Entry System” herein, upon initial issuance, the Series 2010A-D Bonds will be issued in book-entry-only form through the facilities of DTC, and the ownership of one fully registered Series 2010 Bond for each maturity, in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC’s current procedures with respect to the enforcement of bondowners’ rights, see Appendix G – “Book-Entry System” herein.

#### UNDERWRITING

The Series 2010A-D Bonds are being purchased by Wells Fargo Bank, National Association, BMO Capital Markets GKST Inc., Fifth Third Securities, Inc., The Huntington Investment Company, KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and SunTrust Robinson Humphrey, Inc. (the “Underwriters”) pursuant to a Purchase Contract (the “*Purchase Contract*”) between AMP and Wells Fargo Bank, National Association, as representative of the Underwriters. The Purchase Contract sets forth the Underwriters’ obligation to purchase the Series 2010A-D Bonds at a purchase price reflecting an aggregate underwriters’ discount of \$2,474,254 from the initial public offering prices derived from the yields or yields derived from the prices on the inside cover of this Official Statement, subject to certain terms and conditions, including the approval of certain matters by counsel. The Purchase Contract provides that the Underwriters will purchase all of the Series 2010A-D Bonds if any are purchased.

In the ordinary course of their business, the Underwriters and some of their affiliates have engaged and, in the future, may engage in investment banking and/or commercial banking transactions with AMP.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association (“WFBNA”), the senior underwriter of the Bonds, has entered into an agreement (the “*Distribution Agreement*”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

BMO Capital Markets is the trade name for certain capital markets and investment banking services of Bank of Montreal and its subsidiaries, including BMO Capital Markets GKST Inc. which is a direct, wholly-owned subsidiary of Harris Financial Corp. which is itself a wholly-owned subsidiary of Bank of Montreal.

The Series 2010E Bonds are being sold by AMP pursuant to a separate underwriting agreement. The Purchase Contract for the Series 2010A-D Bonds does not make the issuance of the Series 2010E Bonds a condition precedent to the purchase by the Underwriters of the Series 2010A-D Bonds or to the issuance by AMP of the Series 2010A-D Bonds.

## **RATINGS**

The Series 2010A-D Bonds have been rated “A” by Fitch Inc., “A3” by Moody’s Investors Service, Inc. and “A” by Standard & Poor’s, a division of The McGraw Hill Companies, Inc.

Certain information and materials not included in this Official Statement were furnished to the rating agencies. A securities rating is not a recommendation to buy, sell or hold securities. There is no assurance that a rating, once obtained, will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the opinion of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the marketability or market price of the Series 2010A-D Bonds. AMP has not undertaken any responsibility after issuance of the Series 2010A-D Bonds to assure the maintenance of the ratings applicable thereto or to oppose any revision or withdrawal of such ratings.

## **TAX MATTERS**

### **SERIES 2010 TAXABLE BONDS**

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#### *Circular 230 Notice*

Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Series 2010 Taxable Bonds was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the Series 2010 Taxable Bonds to any person, and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

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#### *General*

The following is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Series 2010 Taxable Bonds. This discussion does not purport to be a complete analysis of all the potential tax consequences of such purchase, ownership and disposition and is based upon the Code, Treasury regulations (whether final, temporary or proposed), and rulings and judicial decisions in effect as of the date hereof. Those laws are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor’s individual circumstances or to certain

types of investors subject to special treatment under the U.S. federal income tax laws (including persons whose functional currency is not the U.S. dollar, entities classified as partnerships for U.S. federal income tax purposes, life insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, banks, tax-exempt organizations or persons holding Series 2010 Taxable Bonds in a tax-deferred or tax-advantaged account, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, persons who hold Series 2010 Taxable Bonds as part of a hedging, straddle, integrated, conversion or constructive sale transaction, persons who have ceased to be U.S. citizens or to be taxed as resident aliens or persons liable for the alternative minimum tax) and does not discuss any aspect of state, local or foreign tax laws. This discussion applies only to U.S. holders and non-U.S. holders (each defined below) of Series 2010 Taxable Bonds who purchase their Series 2010 Taxable Bonds in the original offering at the original offering price, and who hold their Series 2010 Taxable Bonds as capital assets. This discussion does not address any tax consequences applicable to a holder of an equity interest in a holder of Series 2010 Taxable Bonds. In particular, this discussion does not address any tax consequences applicable to a partner in a partnership holding Series 2010 Taxable Bonds. If a partnership holds Series 2010 Taxable Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Thus, a person who is a partner in a partnership holding Series 2010 Taxable Bonds should consult his or her own tax advisor.

This summary only addresses Series 2010 Taxable Bonds with the features described herein.

**Prospective purchasers are urged to consult their own tax advisors with respect to the U.S. federal and other tax consequences of the purchase, ownership and disposition of the Series 2010 Taxable Bond before determining whether to purchase Series 2010 Taxable Bonds.**

In this discussion, the term “U.S. Holder” means a beneficial owner of Series 2010 Taxable Bonds that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. As used herein, the term “non-U.S. Holder” means a beneficial owner Series 2010 Taxable Bonds that is not a U.S. Holder.

#### *U.S. Holders*

#### *Interest on Series 2010 Taxable Bonds.*

Payments of interest on the Series 2010 Taxable Bonds will be included in gross income for U.S. federal income tax purposes by a U.S. Holder as ordinary income at the time the interest is paid or accrued in accordance with the U.S. Holder’s regular method of accounting for tax purposes.

#### *Original Issue Discount.*

The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Series 2010 Taxable Bonds issued with original issue discount (“*Discount Bonds*”), if any. The following summary is based upon final Treasury regulations (the “*OID Regulations*”) released by the Internal Revenue Service (the “*IRS*”) under the original issue discount provisions of the Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally 1/4 of 1% of the bond's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each maturity of the Series 2010 Taxable Bonds equals the first price at which a "substantial amount" of such maturity has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Series 2010 Taxable Bond is the sum of all payments provided by such Series 2010 Taxable Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. Payments of qualified stated interest on a Series 2010 Taxable Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting), as described above.

A U.S. Holder of a Discount Bond must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Discount Bond is the sum of the daily portions of original issue discount with respect to such Discount Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder holds such Discount Bond. The "daily portion" of original issue discount on any Discount Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length, over the term of the Discount Bond, provided that each accrual period is no longer than one year and that each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Discount Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases a Discount Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the Discount Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Discount Bond at an "acquisition premium." Under the acquisition premium rules, the amount of original issue discount that such U.S. Holder must include in its gross income with respect to such Discount Bond for any taxable year (or portion thereof in which the U.S. Holder holds the Discount Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

### Market Discount.

If a U.S. Holder purchases a Series 2010 Taxable Bond, other than a Discount Bond, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of a Discount Bond, for an amount that is less than its revised issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Series 2010 Taxable Bond at a “market discount,” unless the amount of such market discount is less than a specified de minimis amount. For this purpose, the “revised issue price” of a Series 2010 Taxable Bond generally equals its issue price, increased by the amount of any original issue discount that has been accrued on such Series 2010 Taxable Bond and decreased by the amount of any payments previously made on such Series 2010 Taxable Bond that were not qualified stated interest payments.

Under the market discount rules, a U.S. Holder is required to treat any partial principal payment (or, in the case of a Discount Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Series 2010 Taxable Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain, or (ii) the amount of market discount that has not previously been included in gross income and is treated as having accrued on such Series 2010 Taxable Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of such Series 2010 Taxable Bond, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Series 2010 Taxable Bond with market discount until the maturity of such Series 2010 Taxable Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of such Series 2010 Taxable Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

### Premium.

If a U.S. Holder purchases a Series 2010 Taxable Bond for an amount that is greater than the sum of all amounts payable on such Series 2010 Taxable Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased such Series 2010 Taxable Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of such Series 2010 Taxable Bond and may offset interest otherwise required to be included in respect of such Series 2010 Taxable Bond during any taxable year by the amortized amount of such premium for the taxable year. However, if a Series 2010 Taxable Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules will apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of such Series 2010 Taxable Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments held or acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

The following rules apply to any Series 2010 Taxable Bond that may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity. The amount of amortizable bond premium attributable to such Series 2010 Taxable Bond is equal to the lesser of (1) the difference between (A) such U.S. Holder's tax basis in the Series 2010 Taxable Bond and (B) the sum of all amounts payable on such Series 2010 Taxable Bond after the purchase date, other than payments of qualified stated interest or (2) the difference between (X) such U.S. Holder's tax basis in such Series 2010 Taxable Bond and (Y) the sum of all amounts payable on such Series 2010 Taxable Bond after the purchase date due on or before the early call date, described below, other than payments of qualified stated interest. If a Series 2010 Taxable Bond may be redeemed on more than one date prior to maturity, the early call date and amount payable on the early call date that produces the lowest amount of amortizable bond premium, is the early call date and amount payable that is initially used for purposes of calculating the amount pursuant to clause (2) of the previous sentence. If an early call date is not taken into account in computing premium amortization and the early call is in fact exercised, a U.S. Holder will be allowed a deduction for the excess of the U.S. Holder's tax basis in the Series 2010 Taxable Bond over the amount realized pursuant to the redemption. If an early call date is taken into account in computing premium amortization and the early call is not exercised, the Series 2010 Taxable Bond will be treated as "reissued" on such early call date for the call price. Following the deemed reissuance, the amount of amortizable bond premium is recalculated pursuant to the rules of this section "Premium." The rules relating to a Series 2010 Taxable Bonds that may be optionally redeemed are complex and, accordingly, prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

*Election to Use Constant Yield Method for all Interest, Discount and Premium.*

U.S. Holders may generally, upon election, include in income all interest (including stated interest, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions. If this election is made with respect to a debt instrument having market discount then the holder will be treated as having made the market discount election with respect to all other debt instruments as described under "Market Discount ." Similarly, if this election is made with respect to a debt instrument having amortizable premium, then the holder will be treated as having made the premium amortization election with respect to all other debt instruments as described under "Premium." The constant yield election may be revoked only with the consent of the IRS.

*Disposition of Series 2010 Taxable Bonds*

Except as discussed above, upon the sale, exchange, redemption or retirement of a Series 2010 Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) of such Series 2010 Taxable Bond and such U.S. Holder's adjusted tax basis in such Series 2010 Taxable Bond. A U.S. Holder's adjusted tax basis in a Series 2010 Taxable Bond generally will equal such U.S. Holder's initial investment in the Series 2010 Taxable Bond increased by any original issue discount included in income (and accrued market discount, acquisition premium, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Series 2010 Taxable Bond. Such gain or loss generally will be long term capital gain or loss if the Series 2010 Taxable Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. holder is an individual, long term capital gain will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.



### Non-U.S. Holders.

A non-U.S. holder who is an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2010 Taxable Bonds on its own behalf will not be subject to U.S. federal income tax on payments of principal of, or premium (if any), or interest (including original issue discount, if any) on Series 2010 Taxable Bonds, unless the non-U.S. holder is a direct or indirect 10% or greater shareholder of AMP, a controlled foreign corporation related to AMP or a bank receiving interest described in section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the Series 2010 Taxable Bonds,
- certifies that the owner is not a U.S. holder, and
- provides the beneficial owner's name and permanent residence address.

A “Withholding Agent” is the last U.S. payor (or non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. holder (that itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN, which is effective for the remainder of the year of signature and three full calendar years thereafter, unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a Form W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of any change and furnish a new Form W-8BEN. A non-U.S. holder of Series 2010 Taxable Bonds that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2010 Taxable Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Series 2010 Taxable Bonds held by a foreign partnership or foreign trust, the partners or beneficiaries rather than the partnership or trust will be required to provide the certification discussed above, and the partnership or trust will be required to provide certain additional information.

A non-U.S. holder of Series 2010 Taxable Bonds whose income from such Series 2010 Taxable Bonds is effectively connected with the conduct of a U.S. trade or business generally will be taxed as if the holder were a U.S. holder (and, if the non-U.S. holder of Series 2010 Taxable Bonds is a corporation, possibly subject to a branch profits tax at a 30% rate or lower rate as may be prescribed by an applicable tax treaty), provided the holder furnishes to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities that are not beneficial owners may be able to provide a signed statement to the Withholding Agent. In that case, however, the signed statement may require a copy of the beneficial owner's Form W-8BEN.

Generally, a non-U.S. holder will not be subject to U.S. federal income tax on any capital gain recognized on retirement or disposition of Series 2010 Taxable Bonds, unless the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the retirement or disposition of such Series 2010 Taxable Bonds, and that gain is derived from sources within the United States. Certain other exceptions may apply, and a non-U.S. holder in these circumstances should consult his tax advisor.

Series 2010 Taxable Bonds will not be includible in the estate of a non-U.S. holder unless the decedent was a direct or indirect 10% or greater shareholder of AMP or, at the time of the decedent's death, income from such Series 2010 Taxable Bonds was effectively connected with the conduct by the decedent of a trade or business in the United States.

*Information Reporting and Backup Withholding.*

Information reporting requirements, on IRS Form 1099, generally apply to (i) payments of principal of and interest on Series 2010 Taxable Bonds to a noncorporate U.S. Holder within the United States or by a U.S. paying agent or other U.S. intermediary, including payments made by wire transfer from outside the United States to an account maintained in the United States, and (ii) payments to a noncorporate U.S. Holder of the proceeds from the sale of Series 2010 Taxable Bonds effected by a U.S. broker or agent or at a U.S. office of a broker.

Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the backup withholding rules. Compliance with the identification procedures described in the preceding section will establish an exemption from backup withholding for those non-U.S. holders who are not exempt recipients.

*Owners of Series 2010B Taxable Bonds (BABs).* Although the Series 2010B Taxable Bonds (BABs) will be issued as "Build America Bonds," AMP will elect to receive a cash subsidy payment from the United States Treasury equal to thirty-five percent (35%) of the interest payable by AMP on the Series 2010B Taxable Bonds (BABs). UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE SERIES 2010B TAXABLE BONDS (BABs) RECEIVE OR BE ENTITLED TO A CREDIT AT ANY TIME AGAINST THE TAX IMPOSED BY THE CODE.

*Owners of Series 2010C Taxable Bonds (New CREBs).* Although the Series 2010C Taxable Bonds (New CREBs) will be issued as "New Clean Renewable Energy Bonds," as permitted by the HIRE Act, AMP will elect to receive a cash subsidy payment from the United States Treasury equal to seventy percent (70%) of the interest payable by AMP on the Series 2010C Taxable Bonds (New CREBs). UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE SERIES 2010C TAXABLE BONDS (New CREBs) RECEIVE OR BE ENTITLED TO A CREDIT PURSUANT TO SECTION 54(A) OF THE CODE AT ANY TIME AGAINST THE TAX IMPOSED BY THE CODE.

**SERIES 2010D TAX-EXEMPT BONDS**

*General.* The Code, includes requirements regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, which must continue to be satisfied by AMP and the Participants after the issuance of the Series 2010D Tax-Exempt Bonds in order that interest on the Series 2010D Tax-Exempt Bonds not be included in gross income for federal income tax purposes. The failure to meet these requirements by AMP or the Participants may cause interest on the Series 2010D Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. AMP has covenanted to comply, and each Participant has covenanted in the Power Sales Contract that it will comply, with the requirements of the Code in order to maintain the exclusion from gross income of interest on the Series 2010D Tax-Exempt Bonds for federal income tax purposes.

In the opinion of Sidley Austin LLP, Federal Tax Counsel, subject to continuing compliance by AMP and the Participants with the tax covenant referred to above, based on existing law, interest on the Series 2010D Tax-Exempt Bonds will not be includable in gross income for federal income tax purposes.

Interest on the Series 2010D Tax-Exempt Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included as an adjustment in calculating federal alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. No opinion is expressed as to the effect of any change to any document pertaining to the Series 2010D Tax-Exempt Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Federal Tax Counsel or in reliance upon the advice of counsel other than Federal Tax Counsel with respect to the exclusion from gross income of the interest on the Series 2010D Tax-Exempt Bonds for federal income tax purposes.

*Discount Bonds.* The excess, if any, of the amount payable at maturity of any maturity of the Series 2010D Tax-Exempt Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Series 2010D Tax-Exempt Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2010D Tax-Exempt Bonds. In general, the issue price of a maturity of the Series 2010D Tax-Exempt Bonds is the first price at which a substantial amount of Series 2010D Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond will be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale, redemption or other disposition of such Discount Bond for federal income tax purposes.

Original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, an owner of a Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of any maturity of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Discount Bond of that maturity is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

*Premium Bonds.* The excess of the tax basis of a Series 2010D Tax-Exempt Bond to a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Bond as part of the initial offering and at the initial offering price as set forth on the inside cover page hereof over the amount payable at maturity of such Bond is "Bond Premium." Bond Premium is amortized over the term of such Bond for federal income tax purposes. No deduction is allowed for such amortization of Bond Premium; however, United States Treasury regulations provide that Bond Premium is treated as an offset to qualified stated interest received on the Bond. An owner of such Bond is required to decrease his adjusted basis in such Bond by the amount of amortizable Bond Premium attributable to each taxable year such Bond is held. An owner of such Bond should consult his tax advisor with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Bond.

*Other.* Ownership of tax-exempt obligations such as the Series 2010D Tax-Exempt Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit.

Prospective purchasers of the Series 2010D Tax-Exempt Bonds should consult their tax advisors as to the applicability and impact of any collateral consequences.

*Information Reporting and Backup Withholding.* Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2010D Tax-Exempt Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

*Future Developments.* Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2010D Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax-exempt status of such interest. Prospective purchasers of the Series 2010D Tax-Exempt Bonds should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which neither Federal Tax Counsel nor Bond Counsel expresses any opinion.

## **OHIO TAX CONSIDERATIONS**

In the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, interest on all the Series 2010A-D Bonds will be exempt from taxes levied by the State of Ohio and its subdivisions, including the Ohio personal income tax, and will also be excludable from the net income base used in calculating the Ohio corporate franchise tax.

## **ADVISORS**

AMP has retained PNC Capital Markets LLC as financial advisor (the “*Financial Advisor*”) and Kensington Capital Advisors, LLC as Financial Products Advisor (the “*Financial Products Advisor*”) in connection with the issuance of the Series 2010A-D Bonds. Neither the Financial Advisor nor the Financial Products Advisor is obligated to undertake, and neither has undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

## **APPROVAL OF LEGAL MATTERS**

### **GENERAL**

Certain legal matters incident to the authorization, issuance and delivery of the Series 2010A-D Bonds by AMP are subject to the approving opinion of Peck Shaffer & Williams LLP, Bond Counsel. The approving opinion of Bond Counsel, in substantially the form set forth in APPENDIX F-1 to this Official Statement, will be delivered with the Series 2010A-D Bonds.

Certain federal tax matters regarding the Series 2010B Taxable Bonds (BABs), the Series 2010C Taxable Bonds (New CREBs) and the Series 2010D Tax-Exempt Bonds will be passed upon for AMP by Sidley Austin LLP, Federal Tax Counsel. The forms of its opinions regarding the Series 2010B Taxable Bonds (BABs), the Series 2010C Taxable Bonds (New CREBs) and the Series 2010D Tax-Exempt Bonds, respectively, are set forth in Appendix F-2 to this Official Statement.

Certain legal matters will be passed upon for AMP by its General Counsel, Chester Willcox & Saxbe LLP. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP.

### **POWER SALES CONTRACT**

Counsel for each of the Participants ("*Local Counsel*") will deliver to AMP, on or before delivery of the Series 2010A-D Bonds, their opinions to the effect that such Participant has duly authorized and executed the Power Sales Contract. In reliance on the opinions of Local Counsel for the Participants located in their states, Kentucky, Ohio, Michigan and Virginia counsel for AMP ("*State Counsel*") will deliver in connection with the issuance of the Series 2010A-D Bonds their opinions as to the validity and enforceability of the Power Sales Contract as to the Participants located therein.

In 2007, the legislature of Virginia enacted a statute expressly authorizing municipalities therein to enter into long-term take-or-pay contracts, including step up provisions, with out-of-state corporations, including non-profit corporations. In early March 2008, the legislature of Michigan enacted amendments to existing statutes expressly authorizing municipalities therein to enter into long-term take-or-pay contracts, including step up provisions, with out-of-state persons.

As noted earlier, the Franklin County, Ohio, Court of Common Pleas, issued an order validating the master trust indenture and the power sales contract relating to the Combined Hydroelectric Projects. In particular, the order specifically found that the take-or-pay and step-up provisions of such power sales contract, which are in all material respects identical to the related provisions in the Power Sales Contract related to the Project, are valid and binding obligations of the Ohio localities executing the contract. Based in part on the findings made in such order, as well as the broad home rule powers of Ohio localities sourced in the Ohio Constitution, Ohio State Counsel will give its opinion as to the validity and enforceability of the Power Sales Contract as to the Ohio Participants.

Kentucky State Counsel advises that although there is no Kentucky statute that specifically authorizes cities such as Paducah and Princeton or their electric plant boards to enter into long-term take-or-pay contracts with private, out-of-state corporations or with step up provisions with out-of-state municipalities, such counsel is of the opinion that Kentucky statutes generally and in particular the provisions of Chapter 96 of the Kentucky Revised Statutes grant electric plant boards such as the City of Paducah Electric Plant Board and the City of Princeton Electric Light Board sufficient power and authority to enter into and comply with the material provisions of the Power Sales Contract.

## **OTHER FINANCING**

AMP expects to negotiate the sale of the Combined Hydro Bonds referred to under “AMERICAN MUNICIPAL POWER - Other Projects – *Combined Hydroelectric Projects*” to a syndicate of investment banks during the week beginning December 13, 2010 and to deliver such bonds against payment therefor during the week beginning December 20, 2010.

## MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, estimates or forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. The Appendices attached hereto are an integral part of this Official Statement and must be read in conjunction with the foregoing material. This Official Statement is not to be construed as a contract or agreement between AMP and the purchasers or owners of the Series 2010A-D Bonds.

The delivery of this Official Statement has been duly authorized by the Board of Trustees of AMP.

AMERICAN MUNICIPAL POWER, INC.

By /s/ Marc S. Gerken, P.E.  
President and Chief Executive Officer

By /s/ Robert W. Trippe  
Senior Vice President of Finance and  
Chief Financial Officer

## APPENDIX A

### THE PARTICIPANTS<sup>(1)</sup>

<u>Participant</u>	<u>Allocation</u> <u>(kW)</u>	<u>Allocation</u> <u>(%)</u>	<u>Participant</u>	<u>Allocation</u> <u>(kW)</u>	<u>Allocation</u> <u>(%)</u>
Hamilton	54,000	51.43%	Hudson	504	0.48%
Cleveland	9,000	8.57	Seville	486	0.46
Danville, Virginia	5,039	4.80	Carey	411	0.39
Paducah, Kentucky	4,530	4.31	Versailles	383	0.36
Wadsworth	3,953	3.76	Hubbard	353	0.34
Orrville	3,526	3.36	Newton Falls	232	0.22
Bowling Green	3,043	2.90	Greenwich	206	0.20
Coldwater, Michigan	1,794	1.71	Arcanum	136	0.13
Wyandotte, Michigan	1,763	1.68	Clinton, Michigan	111	0.11
Yellow Springs	1,642	1.56	Plymouth	80	0.08
Wapakoneta	1,618	1.54	Columbiana	76	0.07
Front Royal, Virginia	1,573	1.50	Haskins	71	0.07
Dover	1,401	1.33	New Knoxville	60	0.06
Bryan	1,386	1.32	Waynesfield	60	0.06
Piqua	1,199	1.14	Wellington	60	0.06
Princeton, Kentucky	870	0.83	Niles	50	0.05
Jackson	826	0.79	Prospect	45	0.04
Amherst	756	0.72	Mendon	30	0.03
Hillsdale, Michigan	731	0.70	Sycamore	30	0.03
Tipp City	715	0.68	New Bremen	25	0.02
Marshall, Michigan	594	0.57	Eldorado	25	0.02
Shelby	559	0.53	Jackson Center	20	0.02
Napoleon	504	0.48	Lucas	15	0.01
Oberlin	504	0.48	Lakeview	5	0.00
			<u>Total</u> <sup>(2)</sup>	<u>105,000</u>	<u>100.00%</u>

<sup>(1)</sup> Located in Ohio unless otherwise noted.

<sup>(2)</sup> Percentages may not add to totals due to rounding.



## **APPENDIX B**

### **INFORMATION ON THE LARGE PARTICIPANTS**

Presented in Appendix B is selected financial information concerning the six largest Participants (the “*Large Participants*”) in terms of their Project Shares.

Each of the Ohio Large Participants – Hamilton, Cleveland, Wadsworth, and Orrville – are required by law to file their annual audited financial statements with the Ohio Auditor of State and reference is made to their annual audits on line at [www.auditor.state.oh.us](http://www.auditor.state.oh.us). Furthermore, Hamilton and Cleveland have had separate annual audits prepared of the results of the operations of their respective Electric Systems, and such audits are also available on line with the Ohio Auditor of State. Danville, Virginia has posted its recent annual audits online at [www.danville-va.gov](http://www.danville-va.gov) – Departments, Finance, Accounting, CAFR.

The fiscal years of Virginia local governments as well as Paducah, Kentucky Electric Plant Board end on June 30, and Danville and Paducah Electric Plant Board’s data are for the most part presented as of such date June 30, 2009.

A difference in the presentation of assessed valuation for the Large Participants should be noted. Pursuant to Virginia law, the assessed valuation information for Danville is based on 100 percent of appraised value of real property. For the Ohio Large Participants, the assessed value of real property (including public utility real property) is 35 percent of estimated true value. Personal property tax is assessed on all tangible personal property used in business in Ohio. The assessed value of public utility personal property ranges from 25 percent of true value for railroad property to 88 percent for electric transmission and distribution property. General business tangible personal property is assessed at 25 percent for everything except inventories, which are assessed at 23 percent. Tangible personal property taxes on (i) manufacturing equipment, (ii) furniture and fixtures and (iii) inventory was phased-out over a four-year period, ending in 2009. In Kentucky, all property not exempted from taxation must be assessed at its “fair cash value,” being the price it would bring at a fair voluntary sale, as determined by a property valuation administrator elected in each county.

The Large Participants are participants in several other AMP sponsored projects for which selected data and related information are presented in this Appendix B. Reference is made to the “AMERICAN MUNICIPAL POWER, INC. – Other Projects” in the forepart of this Official Statement for brief descriptions of the projects and the related financings.

Pursuant to the AMP’s Continuing Disclosure Agreement, AMP will undertake to update the financial information and operating data provided in this Appendix B with respect to such Large Participants. See APPENDIX H – “PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT”.

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## SECTION I

### LARGE PARTICIPANTS' PEAK DEMAND AND PROJECT SHARES

PARTICIPANT	2009	PROJECT SHARES		CUMULATIVE
	PEAK DEMAND ( <u>Kilowatts</u> )	( <u>Kilowatts</u> )	( <u>Percent</u> )	OWNERSHIP ( <u>Percent</u> )
1. Hamilton, Ohio	139,000	54,000	51.43%	51.43%
2. Cleveland, Ohio	289,600	9,000	8.57	60.00
3. Danville, Virginia	217,572	5,039	4.80	64.80
4. Paducah, Kentucky	145,776	4,530	4.31	69.11
5. Wadsworth, Ohio	59,382	3,953	3.76	72.87
6. Orrville, Ohio	<u>55,777</u>	<u>3,526</u>	<u>3.36</u>	76.23
<b>TOTAL</b>	<u>907,107</u>	<u>80,048</u>	<u>75.23%</u>	

## SECTION II

### LARGE PARTICIPANTS' INFORMATION

#### HAMILTON, OHIO

Project Rank	1
Project Share	51.43%
Municipality Established	1791
Electric System Established	1893
County	Butler
Basis of Accounting	Accrual
2009 Peak Demand (kW)	139,000

**Location, Population and Government:** The City has operated under its Charter since 1928. The Charter was first approved in 1926 with the most recent version approved in the year 2000. The City is also subject to the general laws of the State of Ohio, which apply to all municipalities in the State. In addition, the City may exercise all powers of local self-government (home rule) under Article XVIII, Section 3, of the Ohio Constitution.

The legislative power of the City is vested in a Council consisting of six members nominated and elected from the City at large, and the Mayor who is elected separately to a four-year term. All Council positions are four-year terms. All members of Council begin their terms on the first Monday of January next following their election. The Vice-Mayor is the member of Council (other than the Mayor) who receives the largest number of votes in the preceding election.

The City Council appoints the City Manager, who serves as the chief executive officer of the City. The City Manager is charged with the proper administration of all affairs of the City. The City Manager appoints and removes all heads of departments and all subordinate officers and employees of the City and exercises control over all departments created by the City Council.

The Director of Finance is appointed by the City Manager and has charge of the administration of the financial affairs of the City by Charter, including the keeping and supervision of all accounts; the custody and disbursement of the City funds and moneys; the preparation and certification of special assessments and the collection of such assessments as are payable directly to the City; the certification of unpaid assessments to the County Auditor for collection; the collection of license fees; the control over expenditures; the purchase, storage, and disbursement of supplies and materials needed by the City; and such other duties as the City Council may by ordinance require.

The Director of Law is by Charter the chief legal advisor and attorney for the City and all departments and offices thereof in matters relating to their official powers and duties. The Director of Law must attend all meetings of the City Council; give advice in writing, when requested, to the City Council, the City Manager, the director of any department or the head of any City office not connected with a department; prosecute or defend, as the case may be, all suits or cases to which the City may be a party; prosecute for all offenses against the ordinances of the City and for such offenses against the laws of the State as may be required by law; prepare all contracts, bonds, and other instruments in writing in which the City is concerned, and endorse on each the approval of the form and correctness thereof; and perform such other duties imposed upon the Director of Law by the Charter of the City.

The table below sets forth historical population figures for Hamilton since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	61,368
2000	60,690
2009	62,746 (est.)

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Source: U.S. Bureau of Census 1990-2009

**Economic Base:** Butler County exhibits a diverse economic base accompanied by growth in all sectors, including industrial, retail, service and residential. With approximately 1,700 establishments, the City is a major regional center of business and industry. Manufacturing continues to remain a substantial component of the economic base, primarily in the paper and paper products, metalworking, automotive parts and components, machine tools, and other industrial sectors. In the paper industry, Smart Papers (“Smart”) and Mohawk Fine Paper (“Mohawk”) operate mills in the city, with employment totaling over 340. In 2009, Smart and Mohawk announced a business transaction wherein Mohawk acquired all of the uncoated paper lines from Smart and will also take over the merchant sales and distribution of Smart’s coated paper lines. Metal fabricators and machine tool companies include Hamilton Caster & Manufacturing, Salvagnini USA, Livingston-Tyler, Matandy Steel & Metal Products, General Electric Aircraft, Armor Metal Group, Fabridigm/Thompson Metal Tubing and United Performance Metals (fka Ferguson Metals). Other Hamilton companies, such as Valeo Climate Control, ThyssenKrupp Bilstein Corporation of America, Neturen America (Japanese joint venture) and Dynamic Controls, manufacture original and after-market automotive parts and components and employ approximately 400 in this industry sector.

In the period from 2002 to 2010, the City saw considerable expansion activity across the business sectors. The Department of Economic Development tracked and assisted approximately 57 expansion projects during that period. A sampling of these projects includes Fort Hamilton Hospital (\$28.5 million investment, 170 new jobs, 1,250 jobs retained), Valeo Climate Control (\$8.8 million investment, 21 new jobs, 430 jobs retained), Sensus (\$8.5 million investment, 31 new jobs), YAC Robot (\$1 million investment, 14 new jobs), VinylMax/ThermoLock Windows (\$7.5 million investment, 164 new jobs), Neturen America (\$15 million investment, 40 new jobs), and Butler County Surgical Properties/Prexus-Office Building, Imaging Center and Sleep Center (\$18+ million investment, 100+ new jobs, 60 retained jobs). In late 2009, Matandy Realty broke ground on the construction of a 52,000 square foot manufacturing and warehousing facility. The project is a \$2.5 million investment creating 10-15 new jobs. Doing business as JN Linrose Manufacturing, the company makes light gauge metal framing for commercial and residential construction. Total investment on the tracked projects over the period is estimated at almost \$223 million, with new jobs projected at between 1,500 and 2,200 and retained jobs of almost 4,000.

In 1997, the City purchased a 263-acre tract of farmland, along Hamilton-Mason Road, just north of the Butler County Airport. This site is situated approximately one-half mile south of an interchange with the four-lane, limited access State Route 129 and approximately 8 miles from I-75. Since its acquisition, the City has developed and marketed this property, for industrial/commercial office use and is known as Hamilton Enterprise Park. Since its inception, 15 development projects have been undertaken at the Park, including W.S. Properties/VinylMax Windows (150,000 sq. ft. industrial), Neturen America (70,000 sq. ft. industrial), M. A. Folkes (200,000 sq. ft. industrial, two projects), Butler County Surgical Properties (surgery center and expansion, 15,000 and 60,000 sq. ft. medical office buildings, dialysis center, imaging center and sleep center), Sensus, LLC (two projects), Butler County Alcohol and

Chemical Addiction office building, and the BCRTA headquarters. These developments represent a capital investment of almost \$75 million and have the potential of creating in excess of 700 jobs at the Park. In 2010, Sensus broke ground on a 30,000 square foot expansion in addition to their existing 20,000 square foot manufacturing facility in Hamilton Enterprise Park. The \$2.5 million project will result in 5 new jobs for a total of 24 employees. Sensus is a global leader in manufacturing quality natural flavors.

Additionally, the City is continuing to work closely with Vora Technology Park (“VTP”) in bringing new technology to the area. VTP, a 55-acre park containing a 365,000 square foot Class A, state-of-the-art office building, is currently home to approximately 150 employees and a multi-million dollar Cincinnati Bell Technology Solutions Tier 3 data center.

As a complement to VTP and Miami University Hamilton Campus, the City owns the 65-acre, University Commerce Park, which is under development and adjacent to both entities. To further spur the growth expected in this area, the City is moving forward with plans for a new South Hamilton Railroad Crossing/Overpass Project. This overpass will eliminate an at-grade railroad crossing that has been seen as an obstacle to redevelopment efforts and will provide direct access to Grand Boulevard, State Route 4 and the eastern suburban areas from the University Commerce Park/VTP/Miami Hamilton area.

Downtown Hamilton has seen major investments in redevelopment of existing buildings and new construction over the last several years. Historic redevelopments include the Robinson-Schwenn Building redevelopment, a \$4 million investment in a circa 1866 former opera house for office and retail use and the \$1+ million Ryan’s Tavern redevelopment. Concord Hospitality completed the \$11 million renovation of the former Hamiltonian Hotel, reopening as the Courtyard by Marriott/Hamilton. Additionally, Historic Developers, LLC has undertaken the redevelopment of the Mercantile Block, on High Street. This series of three buildings is being redeveloped into retail and upper-story loft apartments, with an investment of approximately \$6 million and a completion date of the first phase in 2010 is still anticipated. In May 2010, SHP Leading Design relocated its offices to the rehabilitated Mercantile Building at 236 High Street in the central business district of downtown. The company received an LEED Gold rating.

To further enhance prospects for downtown redevelopment, IRG purchased the former Ohio Casualty Group headquarters building in 2008. This 428,000 square foot facility is being converted into a multi-tenant, mixed use facility. In partnership with the City, IRG is targeting to bring new businesses into the City.

**Future Economic Development Projects.** General economic/prospect activity has gained consistent momentum over the last year with much of this activity centered on the general manufacturing, call center/office, alternative energy, information technology, healthcare/pharmaceuticals and some food and beverages industries.

In 2010, the City of Hamilton pursued 13 active prospects that have either considered or are considering the City of Hamilton for investment. “Active” prospects are defined internally as projects receiving customized development proposals or conducting site visits. The 2010 prospect pipeline has tracked the potential creation of approximately 2,170 jobs and a potential investment in real and personal property of an estimated \$750 million.

In 1996, Fairfield Township voters approved a Joint Economic Development District (the “JEDD”) between the City of Hamilton and Fairfield Township. A number of projects and developments have occurred within all phases of the JEDD, including several banks and restaurants, as well as stores such as WalMart, Target, Dick’s, Best Buy, JC Penney, Kohl’s, TJMaxx, LA Fitness, PNC/National City

and a variety of other retail establishments. Due to this JEDD's location around the interchange of State Route 129 and the State Route 4 By-Pass, additional retail and commercial development is expected to continue at this location into the future.

In late 2009, the 66 acre parcel located along Northwest Washington Boulevard, adjacent to the Lowes/Wal-Mart development was purchased by a local developer. Initial discussions for the reuse of this site include mixed-use residential and potential retail.

In 2003, the City purchased the former Mercy Hospital from Mercy Health Partners. This 7.5 acre site is currently being marketed as a mixed-use residential and retail development opportunity along the banks of the Great Miami River. This redevelopment, known as RiversEdge, was facilitated through the use of a \$3 million grant from the Clean Ohio Revitalization Fund. The investment at the site, including demolition and predevelopment, is expected to be near \$20 million.

Of the 7.5 acre parcel, approximately 1.5 acres are slated for a riverfront amphitheatre and open greenspace. This project is currently in the early states of design and engineering. The total project cost is estimated at \$4.1 million. Construction of Phase I of the amphitheatre is targeted for 2011. This redevelopment project is a key component of the City's Riverfront Redevelopment efforts.

Additional development interests continue to evolve with the RiverWest RiverWalk project. This \$40 million mixed use development is in early planning stages as private interest in the site continues to develop. Early plans for the site call for retail, restaurants, athletic amenities, and riverfront recreation activities.

The City continues to market Hamilton Enterprise Park and University Commerce Park for development of industrial and commercial projects. Combined, both Parks offer a balance of approximately 200 acres for development. Vinylmax, LLC ("Vinylmax") has expressed interest in negotiating a Right of First Refusal for additional land at Hamilton Enterprise Park. Vinylmax initially invested in Hamilton in 2007 with the construction of a 150,000 square foot facility. Approximate total investment of the project was \$6,950,000. Vinylmax is a light manufacturer of vinyl windows. They currently employ approximately 180 people.

Several redevelopment projects continue to gain momentum. The former Ohio Casualty Building continues to be marketed as one of the premier office opportunities in the downtown. Phase I of the Mercantile Block historic redevelopment project is expected to be complete in 2010. Other phases of the \$6.5 million project are expected to continue for the next 1-2 years.

The following table provides a summary of certain economic indicators for the City of Hamilton.

<b><u>BUILDING PERMITS</u></b>		
<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$39,217,568	\$64,449,865	\$95,464,332
Source: City of Hamilton		

<b><u>ASSESSED VALUATION</u></b>		
<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$946,741,748	\$915,653,090	\$952,929,910
Source: City of Hamilton		

<b><u>UNEMPLOYMENT</u></b>			
<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010*</u></b>
5.7%	6.7%	10.9%	10.6%
Source: Ohio Labor Market Information, <a href="http://lmi.state.oh.us/">http://lmi.state.oh.us/</a>			
*As of August 2010, not seasonally adjusted			

<b><u>MEDIAN FAMILY INCOME</u></b>	
<b><u>1990</u></b>	<b><u>2000</u></b>
\$28,117	\$41,936
Source: U.S. Bureau of Census	

**Electric System:** The Electric System is headed by a director who reports directly to the Deputy City Manager/Managing Director of Operations. The Electric System has approximately 120 full time employees. Certain administrative functions such as finance, legal and billing are shared by the Electric System and other City departments. The Electric System operates thermal, hydroelectric, and combustion turbine generation facilities and supplemental resources. Operation of the Electric System's transmission and distribution facilities and the generation facilities is under the direction of the Director of Electric.

The thermal and natural gas generation facilities have an aggregate summer capability of approximately 115 MW. The Greenup Hydroelectric Plant is a run-of-the-river hydroelectric facility with a capacity of approximately 70.2 MW. The City's license granted by the Federal Energy Regulatory Commission ("*FERC*") for operating the Greenup Hydroelectric Plant expires in 2026. The City also operates the Hamilton Hydro Plant, also a run-of-the-river hydroelectric facility, with a capacity rating of 1.94 MW. The City's license granted by the FERC for operating the Hamilton Hydro Plant expires in 2031. The City has a share of Niagara hydroelectric power as provided in allocation of headwater benefits of 4 MW.

For supplemental resources, the City also has executed an agreement with Duke Energy (formerly Cinergy Corp.) ("*Duke*") that provides banking and firming services to increase the reliability of the output of the Greenup Facilities. This arrangement requires Duke to supply 50 MW per hour to the City during peak periods and 25 MW per hour during off-peak periods on a firm basis. If Duke does not deliver, the City will receive liquidated damages, which means Duke will make the City whole financially for the costs incurred due to Duke's inability to deliver. This agreement extends through December 31,



2010. The City has replaced this supplemental resource by making bilateral purchases of energy blocks delivered to Hamilton and arranging to sell capacity and energy from Greenup into the PJM market.

The City has a Purchase Power Agreement with AMP for a share of the Prairie State Generating Company (“PSGC”), which allocates 35 MW of capacity and associated energy to Hamilton for units expected to become commercial in 2011 and 2012. AMP is the largest participant in the PSGC project with approximately 23.26% (368 MW) of the capacity and associated energy, all of which has been subscribed to through purchase agreements by AMP member communities.

The City is a member of OMEGA JV2, a joint venture of 36 Ohio municipalities that has acquired, and installed near the loads they serve, gas-fired and diesel generating units for peaking and other power supply purposes. A “Purchaser Participant” with a 23.87% undivided ownership interest in these units, the City is also a “Financing Participant” responsible for 30.45% (subject to an increase of up to 25% of such percentage) of the debt service on the \$50,260,000 bonds issued by AMP to finance a portion of the cost of these units. Debt service on these AMP bonds is approximately \$4 million annually for 20 years ending January 1, 2021.

The City has arranged transmission service under the Midwest Independent System Operator (MISO) open access transmission tariff. Duke Energy has filed with the FERC to move from MISO to the Pennsylvania New Jersey Maryland (PJM) Regional Transmission Organization and the City intends to follow suite in conjunction with that move.

In 2009, the Hamilton electric system served 29,181 residential, commercial and industrial customers. The following table lists the City’s five largest customers by energy purchased in 2009 and as a percentage of total system revenues during that year.

Customer	Type of Business	kWh Purchased (2009)	% of Total System Revenues
1. Mohawk Paper	Paper Mill	31,040,745	4.20%
2. Cincinnati Bell Technical Solutions	Data Center	20,462,381	2.26
3. Fort Hamilton Hughes Hospital	Health Care	12,873,202	1.58
4. General Electric Aircraft	Aircraft Engines	8,520,969	1.19
5. City Water Treatment South Plant	Municipal Water Production	8,446,200	1.12

In 2009, other than the municipal use listed in the table above, the City waste water reclamation facility purchased 8,200,570 kWh representing 1.04% of the total system revenues. The remaining municipal use is un-metered and is recovered from all municipal customers through the loss factor in base rates.

The City and AMP have entered into agreements setting forth the principal terms and conditions on which Hamilton would agree to sell to AMP for \$139 million a minority interest in the Greenup Hydroelectric Plant (“*Greenup*”) contingent on AMP’s successfully financing and placing in service the Meldahl Project. Hamilton expects to apply the bulk of the \$139 million proceeds from the sale of the minority interest in Greenup to the retirement of debt incurred for Greenup. See “Revenue Bonds” in the following table.

The following table presents certain financial data respecting the City's Electric System for the calendar years shown, on an accrual basis.

	<b>Hamilton</b>		
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$62,221	\$65,049	\$60,307
Other Income	706	88	871
Total Revenue	62,927	65,137	61,178
<b><u>Operating Expense*</u></b>			
Power Costs	25,019	22,993	20,036
O&M Expense	19,460	25,913	19,255
Total Operating Expense	44,479	48,906	39,291
Net Revenue Available for Debt Service	18,448	16,231	21,887
General Obligation Debt Service	1,279 <sup>(1)</sup>	1,180 <sup>(2)</sup>	250 <sup>(3)</sup>
Revenue Debt Service	13,101	13,064	17,643
Depreciation	9,987	10,077	10,455
Net Non-Operating Revenue (Excl. Interest Exp.)	922	890	51
Net Transfers	-	(60)	(183)
<b>Net Assets 1/1</b>	3,112	4,363	3,343
<b>Net Assets 12/31</b>	4,363	3,343	6,514
<b><u>Year End Balance</u></b>			
General Obligation Bonds and Notes	6,070 <sup>(3)</sup>	18,170	-
Revenue Bonds	148,144	146,463	169,384

\* Excluding depreciation.

(1) The City issued \$6.07 million of Bond Anticipation Notes for its Electric System in 2007, retiring \$7.02 million of Bond Anticipation Notes resulting in net reduction in General Obligation Debt of \$0.95 million.

(2) The City issued \$18.2 million of Bond Anticipation Notes for its Electric System in 2008, retiring \$6.07 million of Bond Anticipation Notes resulting in net reduction in General Obligation Debt of \$12.1 million.

(3) The City issued \$18.62 million of Electric System Revenue Bonds in 2009 and \$14.52 million of Taxable Electric System Build America Revenue Bonds in 2009 to currently refund bond anticipation notes and provide funding for electric system transmission and distribution improvements. With the issuance of the Build America Revenue Bonds, the City will be entitled to receive an interest subsidy payment of 35% from the U.S. Treasury.

## CLEVELAND, OHIO

Project Rank	2
Project Percentage	8.57%
Municipality Established	1796
Electric System Established	1906
County	Cuyahoga
Basis of Accounting	Accrual
2009 Peak Demand (kW)	289,600

**Location, Population and Government:** The City of Cleveland is located in the northeast quadrant of Ohio on Lake Erie. The City operates under and is governed by the Charter, which was first adopted by the voters in 1913 and has been and may be further amended by the voters from time to time. The City is also subject to certain general State laws that are applicable to all cities in the State. In addition, under Article XVIII, Section 3, of the Ohio Constitution, the City may exercise all powers of local self-government and may exercise police powers to the extent not in conflict with applicable general State laws. The Charter provides for a mayor-council form of government.

Legislative authority is vested in a 19-member Council. The terms of Council members and the Mayor are four years. All Council members are elected from wards. The present terms of the Mayor and Council members expire in January 2014. The table below set forth historical population figures for Cleveland since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	505,616
2000	478,403
2009	431,363 (est.)

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Source: U.S. Bureau of Census

**Economic Base:** Cleveland's economy is based on a mix of industrial and commercial development. The City's major industries include health care, retail sales, hospitality, dairy products and light industrials.

The following table provides a summary of certain economic indicators for the City of Cleveland.

#### **BUILDING PERMITS**

<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>
\$146,198,000	\$129,921,000	\$128,318,820

Source: City of Cleveland Official Statement , April 2010 for 2007-2008, City of Cleveland CPP for 2009

#### **ASSESSED VALUATION**

<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>
\$6,114,332,000	\$5,937,459,000	\$5,513,219,000

Source: City of Cleveland Official Statement, April 2010 pg. A-28

#### **UNEMPLOYMENT**

<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>	<u><b>2010*</b></u>
7.6%	8.9%	11.1%	12.1%

Source: City of Cleveland Official Statement, April 2010 (for 2007 and 2008; Ohio Labor Market Information, <http://lmi.state.oh.us/> (for 2009 and 2010)

\*As of August 2010, not seasonally adjusted

#### **MEDIAN FAMILY INCOME**

<u><b>1990</b></u>	<u><b>2000</b></u>
\$22,448	\$30,286

Source: U.S. Bureau of Census

**Electric System.** Authority over the Cleveland electric system is vested in the Board of Control. The Board of Control consists of the Mayor and 14 directors of the City's departments. Cleveland Public Power's rates are subject to approval by the City Council and fixed by the Board of Control. The City's Department of Public Utilities operates the Division of Cleveland Public Power ("CPP") for the purpose of supplying electric energy to customers located primarily in the City of Cleveland. Under the Constitution of the State and the Charter of the City, the City has authority to own, operate and regulate CPP, and in connection therewith, to acquire property, construct facilities, provide electric energy throughout the service area and perform other necessary functions to operate and maintain CPP.

CPP is in the Cleveland Electric & Illuminating ("CEI") Transmission Service Area, an operating company of First Energy Corp. In 2009, CPP purchased approximately 85% of its power from AMP. The City utility owns and maintains 50 miles of transmission and 900 miles of distribution lines and has 33 substations. The City owns three 16.2 MW combustion turbine units and leases six 1.825 MW diesel generators, all of which are used for peak load and emergency purposes. City of Cleveland municipal customers accounted for 18.9% of CPP's revenue in 2009.

In the early 1990s CPP initiated a system expansion program that included the construction of over 30 miles of 138-kV transmission lines, six new distribution substations, and a new 138-kV interconnection with CEI. This program increased CPP's geographical coverage of the City from about 35% to approximately 60% and added over 26,000 new customers.

In addition to the power it purchased from AMP in 2009, CPP obtained its remaining power and energy requirements (approximately 15%) through short- and long-term agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections, from CPP's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, in addition to the Prairie State project, CPP intends to participate in two other generation projects through its membership in AMP. These projects are both hydro electric generation projects and are expected to be completed and operational in 2013 and 2014.

Unlike other Participants, CPP competes head-to-head for customers with CEI. Because of the overlapping service areas of CPP and CEI, CPP's potential customers are either new customers for electric service or existing customers of CEI. Accordingly, CPP's ability to attract new customers is heavily dependent on its ability to compete directly with CEI based on rates, system reliability and customer service. Head-to-head competition with CEI for existing large commercial and industrial customers services by CEI or CPP generally occurs at the time those customers' contractual arrangements expire.

CPP continues to be successful in winning contracts with commercial and industrial customers, some of which were previously customers of CEI. However, CEI has also been able to obtain contracts with former CPP customers. Recent additions to CPP's large commercial and industrial customer base include the Cleveland Museum of Art, the Cuyahoga County Juvenile Court & Detention Center, Expedient Communications, the Hanna Theater, Ohio Technical College, Pierre's Ice Cream, Veteran's Development, and National Plating. CPP believes that it has been successful in competing head-to-head with CEI for large commercial and industrial customer accounts within CPP's service area because of slightly lower rates, better customer service, and increased reliability of its service.

CPP's rates have historically been lower than CEI's rates, and its current average rates for residential, small commercial, and large commercial customers are approximately 2.22%, 23.07% and 5.2%, respectively, below CEI's average system rates. While CPP loses a small number of customers each year for a variety of reasons, including customer relocation and population loss, it has seen a net gain of customers from CEI in each of the last six years.

In 2009, the Cleveland electric system served 74,850 residential, commercial and industrial customers. The following table lists the City's five largest customers by energy purchased in 2009 and as a percentage of total system revenues during that year.

Customer	Type of Business	kWh Purchased (2009)	% of Total System Revenues
1. The Medical Center Co.	Consortium of Various Facilities	255,829,957	9.43%
2. Cargill, Inc	Salt Mining	35,626,207	2.11
3. NEORSD – Easterly	Sewage Facility	25,615,588	1.34
4. Cleveland Browns Stadium	Professional Football	18,607,431	1.25
5. Cleveland Thermal – Lakeside Ave.	Commercial Heating and Air Conditioning	14,729,348	0.96

The following table presents certain financial data respecting the City's Electric System for the calendar years shown, on an accrual basis.

	<b>Cleveland</b>		
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$155,171	\$158,106	\$155,865
Other Income	4,061	2,118	169
Total Revenue	<u>159,232</u>	<u>160,224</u>	<u>156,034</u>
<b><u>Operating Expense*</u></b>			
Power Costs	83,523	86,850	90,550
O&M Expense	36,892	37,311	37,886
Total Operating Expense	<u>120,415</u>	<u>124,161</u>	<u>128,436</u>
Net Revenue Available for Debt Service	<u>38,817</u>	<u>36,063</u>	<u>27,598</u>
General Obligation Debt Service	-	-	-
Revenue Debt Service	17,011	18,483	19,625
Depreciation	17,056	17,682	17,785
Net Non-Operating Revenue (Excl. Interest Exp.)	(98)	2,680	(334)
Net Transfers	-	-	-
Net Assets 1/1	186,575	197,178	205,779
Net Assets 12/31	197,178	205,779	203,679
<b><u>Year End Balance</u></b>			
General Obligation Bonds	-	-	-
Revenue Bonds	194,260	261,301	255,623

\* Excluding depreciation.

In April 2008, the City issued \$93,712,880 in current interest and capital appreciation public power system revenue bonds and from the proceeds refunded \$20,325,000 of its public power system revenue bonds. In September 2010, the City issued \$23,915,000 in public power system revenue bonds and from the proceeds refunded \$26,425,000 of its public power system revenue bonds.

The City is a Prepay Participant with an obligation to purchase 58.48% of 171 MW (or 100 MW), equal to approximately \$38.0 million for each of the years 2010 through 2012.

## DANVILLE, VIRGINIA

Project Rank	3
Project Share	4.80%
Municipality Established	1793
Electric System Established	1886
County	N/A
Basis of Accounting	Accrual
2009 Peak Demand (kW)	217,572

**Location, Population and Government:** The City of Danville, Virginia is located in the south central region of Virginia near the North Carolina state line, surrounded by Pittsylvania County (Virginia cities and counties are mutually exclusive and do not overlap). The City has a Council-Manager form of government. The Council is comprised of nine persons, elected at-large for four-year staggered terms. The City Council elects a Mayor and a Vice-Mayor from its membership and these officials serve two year terms. The table below sets forth historical population figures for Danville since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	53,056
2000	48,411
2009	44,400 (est.)

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Source: U.S. Bureau of Census.

**Economic Base:** Danville's economy is based on a mix of industrial and commercial development. The City's major industries include retail sales, auto aftermarket supply, wood products and by-products and light industrials.

The following table provides a summary of certain economic indicators for the City of Danville:

**BUILDING PERMITS**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$50,274,554	\$61,390,113	\$27,659,787

Source: City of Danville

**ASSESSED VALUATION**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$2,497,659,386	\$2,531,311,088	\$2,664,746,381

Source: City of Danville

**UNEMPLOYMENT**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010*</u></b>
7.3%	9.2%	13.4%	14.0%

Source: Virginia Workforce Connection;  
<https://www.vawc.virginia.gov/>

\* As of August 2010, not seasonally adjusted.

**MEDIAN FAMILY INCOME**

<b><u>1990</u></b>	<b><u>2000</u></b>
\$27,752	\$36,024

Source: U.S. Bureau of Census



**Electric System:** Authority over the Danville Electric System is vested in the City of Danville. The Power & Light Director, who reports to the Utilities Director, manages the Electric System. The Electric System serves a community covering approximately 500 square miles, which includes the City of Danville, and portions of Pittsylvania County, Henry County, and Halifax County. Danville exercises its right to serve exclusively within its service territory. There are a few commercial and industrial customers within the service territory that are served by American Electric Power (“AEP”). AEP has served these customers since 1970.

Since 2007, Danville has purchased the majority of its power from AMP. The City utility owns and maintains 118 miles of transmission and distribution lines and has 17 substations. The City of Danville owns and operates a three-unit hydroelectric generating plant with a maximum capacity of 10.5 MW, a 750 kW unit at the Talbott Dam site and three 2000 kVa diesel generators in the service area. The City utility also has two generators, a 200 kW back-up diesel generator at its water treatment plant and a 150 kW mobile generator for the pump stations. In fiscal year 2009, the Danville electric system employed 116 people.

In 2009, the Danville Electric System served 38,335 residential, commercial and industrial customers. (As of February 2008, Danville changed its definition of customer count to reflect the consolidation of meters under one payor and such change is reflected in Section IV of the Appendix B). The following table lists the City’s five largest customers by energy purchased in 2009 and as a percentage of total system revenues during that year.

Customer	Type of Business	kWh Purchased (fiscal 2009)	% of Total System Revenues
1.Intertape	Clear Tape Manufacturer	62,549,100	4.55%
2.Danville Regional Med	Hospital	25,150,464	1.95
3.Nestle	Food Processing	22,344,640	1.69
4.Swedwood	Furniture Manufacturer	20,524,431	1.61
5.Shorewood Packaging	Manufacturer of Cardboard Boxes	11,963,054	0.93

In 2009, the electric system also provided the City of Danville with 23,347,797 kWh for general municipal purposes.

The following table presents certain financial data respecting the City's Electric System for the fiscal years shown on an accrual basis. The presentation is generally consistent with the flow of revenues of the Electric System.

	<b>Danville</b>		
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$88,910	\$90,182	\$98,950
Other Income	-	-	-
Total Revenue	88,910	90,182	98,950
<b><u>Operating Expense</u></b> *			
Power Costs	61,233	62,566	69,843
O&M Expense	7,075	7,870	8,716
Total Operating Expense	68,308	70,436	78,559
Net Revenue Available for Debt Service	20,603	19,746	20,391
General Obligation Debt Service	1,979 <sup>(1)</sup>	2,129	2,251 <sup>(2)</sup>
Depreciation	3,915	4,049	5,498
Net Non-Operating Revenue (Excl. Interest Exp.)	4,098	2,681	1,848
Net Transfers	(8,524)	(9,063)	(9,063)
<b>Net Assets 7/1</b>	120,314	131,794	141,150
<b>Net Assets 6/30</b>	131,794	141,150	149,438
<b><u>Year End Balance</u></b>			
General Obligation Bonds <sup>(1)</sup>	19,558 <sup>(1)</sup>	19,221	27,319 <sup>(2)</sup>

\* Excluding Depreciation.

(1) The City of Danville issued \$5 million of GO Bonds to fund capital improvements in fiscal year 2006-2007.

(2) The City of Danville issued \$9.8 million of GO Bonds to fund capital improvements in fiscal year 2008-2009.

## ELECTRIC PLANT BOARD OF THE CITY OF PADUCAH, KENTUCKY

Project Rank	4
Project Percentage	4.31%
Municipality Established	1798
Electric System Established	1945
County	McCracken
Basis of Accounting	Accrual
2009 Peak Demand (kW)	145,776

**Location, Population and Government:** The City of Paducah is situated in the western portion of Kentucky some 225 miles southwest of Louisville. The City, which covers an area of seven square miles, is the seat of the McCracken County government. The City is governed by a five-member City Commission consisting of the Mayor and four other Commissioners. The City Manager, who is responsible for the administration and supervision of all City services and facilities, is appointed by the City Commission.

The table below sets forth historical population figures for Paducah since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	27,256
2000	26,307
2009	25,721 (est.)

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Source: U.S. Bureau of Census

**Economic Base:** Paducah's economy is based on a mix of industrial and commercial development. The City's major industries include river transportation, a uranium enrichment plant, two regional hospitals and regional retail sales center.

The following table provides a summary of certain economic indicators for Paducah.

**BUILDING PERMITS**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$57,675,843	\$34,464,789	\$38,788,724

Source: Paducah Electric Plant Board

**ASSESSED VALUATION**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$1,422,549,000	\$1,457,284,000	\$1,451,199,318

Source: Paducah Electric Plant Board for 2007-2008; McCracken County Property Valuation Administrator for 2009.

**UNEMPLOYMENT**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010*</u></b>
5.0%	5.9%	8.9%	8.7%

Source: [www.workforcekentucky.ky.gov](http://www.workforcekentucky.ky.gov)  
 \*As of August 2010, not seasonally adjusted

**MEDIAN FAMILY INCOME**

<b><u>1990</u></b>	<b><u>2000</u></b>
\$23,665	\$34,092

Source: U.S. Bureau of Census

**Electric System:** The Paducah Electric Plant Board (the “Board”) was created by an ordinance enacted on January 30, 1945 by the governing body of the City, which ordinance was amended on March 7, 1959. The Board functions on behalf of the City and has duties, powers and authority as specifically defined by Kentucky statutes. The Board is a separate political subdivision of the Commonwealth of Kentucky.

An ordinance was adopted by the City Commission on August 23, 1960, declaring that it was desirable to purchase and operate a municipal electric system, subject to approval of the voters. Said election was held on November 8, 1960 and the purchase and operation of a municipal utility was approved by over 76% of voters.

In July 1961, the Board issued bonds for the purpose of purchasing from Kentucky Utilities Company, that segment of the system which was inside the City limits.

The Board’s service area now includes most of the area within the City limits and a portion of surrounding McCracken County.

The total power requirements for the system were purchased from the Tennessee Valley Authority (“TVA”) under a ten-year contract between the Board and TVA which became effective October 1, 1997. The contract was cancellable with five years prior written notice. The Board provided TVA with its cancellation notice on December 31, 2004 and the contract terminated December 21, 2009. The Board then began purchasing through multiple counterparty arrangements, with power scheduled through AMP. Power is received at two delivery points at 161,000 volts. One delivery point is located near the northwestern boundary of the system. The second delivery point is located near the southern boundary.

A 69,000 volt transmission system connects the system’s eight distribution substations to the delivery points. The 69 KV system is “looped” from distribution substation to substation to provide flexibility in switching and increase reliability.

The distribution substations reduce the voltage from 69,000 volts to 12,470 volts, which is the System’s nominal distribution voltage. Distribution transformers, both pole-mounted and pad-mounted, reduce the voltage to the utilization level required by the system’s customers.

The total transformer nameplate capacity of the distribution substations is 356,000 kilo-volt amps. The nameplate capacity of the delivery point transformers (total system capacity) is 316,000 kilo-volt amperes. An all-time maximum system peak for the system is 161,000 kilowatts. This peak was set in August 2000.

The Board participates in the Prairie State Energy Campus as a member of the Kentucky Municipal Power Agency (“KMPA”). To date, KMPA has issued \$491.4 million in revenue bonds, secured by a take-or-pay power sales contract between KMPA, the Board and the Electric Plant Board of Princeton, Kentucky, to finance KMPA’s 7.82% undivided ownership interest in the PSEC. Pursuant to such power sales contract, the Board is entitled to purchase 83.9% of KMPA’s share of the PSEC and is responsible for a commensurate amount of KMPA’s expenses relating to the PSEC.

On January 29, 2009 the Board issued \$161,730,000 of exempt special revenue bonds and \$8,525,000 of taxable special revenue bonds to finance construction of a peaking plant to provide electric service to the community during times of peak energy consumption. The construction of these peaking units was completed in May 2010.

The Board has total assets of \$224,530,679 with 895 miles of line with 25 customers per mile and an average residential usage of 1,066 kWh per month.

In fiscal year 2009, the Board served 22,488 residential, commercial and industrial customers.

The following table lists the Board's five largest customers by energy purchased in 2009 and as a percentage of total system revenues during the year.

Customer	Type of Business	kWh Purchased (2009)	% of Total System Revenues
1. Western Baptist Hospital	Health Care	37,362,770	5.24%
2. Lourdes Hospital	Health Care	26,773,355	3.68
3. Infiniti Plastic Tech Inc.	Plastic Manufacturing	11,946,000	1.55
4. Walmart Stores, Inc.	Retail	10,512,003	1.43
5. H.B. Fuller, Co.	Manufacturing	9,616,800	1.46

The following table presents certain financial data respecting the Board's Electric System for the calendar years shown, on an accrual basis.

<b>Electric Plant Board of the City of Paducah, Kentucky</b>			
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$48,502	\$52,960	\$58,557
Other Income	1,232	1,308	1,524
Total Revenue	49,734	54,267	60,081
<b><u>Operating Expense</u></b> *			
Power Costs	38,758	41,398	47,564
O&M Expense	7,100	7,300	7,492
Total Operating Expense	45,858	48,698	55,056
Net Revenue Available for Debt Service	3,875	5,569	5,025
Revenue Debt Service	891	921	7,289
Depreciation	2,482	2,684	2,743
Net Non-Operating Revenue (Excl. Interest Exp.)	313	220	554
Net Transfers	-	-	-
<b>Net Assets 7/1</b>	36,645	37,828	40,396
<b>Net Assets 6/30</b>	37,828	40,396	42,343
<b><u>Year End Balance</u></b>			
Revenue Bonds	10,494	10,142	170,294**

\* Excluding depreciation.

\*\* In January 2009 the System issued \$161.73 million of tax-exempt special revenue bonds and \$8.525 million of taxable special revenue bonds to finance construction of a peaking plant to provide electric service to the community during times of peak energy consumption.

On October 14, 2010, the Board issued \$3,015,000 of its Refunding Revenue Bonds, Series 2010 to provide funds, together with other available moneys, to redeem all of its outstanding Revenue Bonds, Series 2001 (the "Refunded Bonds"). The Refunded Bonds will be redeemed on January 1, 2011.

## WADSWORTH, OHIO

Project Rank	5
Project Percentage	3.76%
Municipality Established	1814
Electric System Established	1916
County	Medina
Basis of Accounting	Accrual
2009 Peak Demand (kW)	59,382

**Location, Population and Government:** The City of Wadsworth is a statutory city located in Medina County, in northeastern Ohio, approximately 30 miles south of Cleveland and 15 miles west of Akron. The Mayor is elected to a four-year term with duties that include appointing the Director of Public Service, The Director of Human Resources and the Director of Public Safety in order to effectively administer services for the citizens of the City. In addition, the governing body of the City is the City Council which consists of eight Council members, including the Council President. City Council members are elected to their positions as part-time public servants. Each serves for two years, with the current terms beginning January 1, 2010 and continuing through December 31, 2011. The table below sets forth historical population figures for Wadsworth since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	15,718
2000	18,437
2009	21,001 (est.)

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Source: U.S. Bureau of Census

**Electric System:** Authority over the Wadsworth Electric System is vested in the City Council. A Director of Public Service, who is appointed by the Mayor, manages the Electric System. The Electric System serves a community covering 32 square miles. Included within the city's retail service area and served by the electric system are the City, parts of Wadsworth Township, Guilford Township, Sharon Township, and part of the City of Norton. Wadsworth does not exercise its right to serve exclusively within the city limits.

Wadsworth is in the First Energy Transmission Service Area. In 2009, Wadsworth purchased 100% of its power from AMP or through the AMP sponsored OMEGA JV5 (the Belleville project) and OMEGA JV2 (the distributed generation project). The City is one of the 21 municipalities that formed OMEGA JV1 in October 1992, for the purposes of jointly owning and operating 9 megawatts of generation, known as Engle Units, which are sited in Cuyahoga Falls, Ohio. Wadsworth has an 11.23% ownership in the Engle Units. Wadsworth is also a participant in OMEGA JV6, AMP's Combustion Turbine Project and the AMP prepaid purchase power transaction. The City utility owns and maintains 316 miles of transmission and distribution lines and has six substations. The City does not own directly any generating facilities. In 2009, the Wadsworth electric utility employed 45 people.

The City has a 5.62% (2,360 kW) undivided ownership share of interest in the OMEGA JV5 Belleville hydroelectric project. As of December 31, 2009, the OMEGA JV5 Beneficial Interest



Certificates (“BICs”) were outstanding in the amount of \$117,598,609, of which the City’s share is \$6,607,922. The City’s share of debt service on the BICs ranges from approximately \$515,000 through 2024 to approximately \$614,000 in 2025 through 2029. The City is subject to a maximum step-up of 25% in these amounts in the event another OMEGA JV5 participant defaults.

Pursuant to the OMEGA JV5 Joint Venture Agreement, the City is obligated to a number of covenants, including an obligation to set rates to maintain a 110% debt coverage ratio annually. In 2007, Wadsworth failed to comply with this covenant. In response, the City engaged a third party professional to conduct a revenue requirement study, a cost of service study and developed a cash reserve policy. As a result, the City increased rates in both 2008 and 2009. The City has met its debt covenant obligation in 2008 and 2009, based on audited data. In October 2009, Wadsworth applied for and received a waiver from OMEGA JV5 for its Coverage Non-Compliance in year 2007.

The City is also a member of OMEGA JV2, a joint venture of 36 Ohio municipalities, which acquired and installed gas-fired and diesel generating units for peaking and other power supply purposes near the loads they serve. An “Owner Participant” with a 5.81% undivided ownership interest in these units, the City is also a “Financing Participant” responsible for 7.41% (subject to an increase of up to 25% of such percentage) of the debt service on the \$50,260,000 bonds issued by AMP to finance a portion of the cost of these units. Debt service on these AMP bonds is approximately \$4 million annually for 20 years ending January 1, 2021, with the City’s share being approximately \$296,500 annually.

Wadsworth is also a member of OMEGA JV6, a joint venture of 10 Ohio municipalities. The joint venture owns the 7.2 MW AMP/Green Mountain Energy Wind Farm located in Bowling Green, Ohio and is Ohio’s only utility-scale wind farm. The facility features four 1.8 MW wind turbines. The City owns 56.94% of the project. On July 1, 2004, AMP issued \$9.8 million adjustable rate revenue bonds. Debt service on these bonds is approximately \$1 million annually, with the City’s share being approximately \$35,000.

The City purchases 17.9 MW of power from AMP under a power schedule for AMP’s Combustion Turbine Project. Based on the 3.89% swapped, fixed interest rate payable by AMP and the existing amortization schedule agreed to with KeyBank as the issuer of the CT Letter of Credit, Wadsworth’s 12.6% responsibility for such debt service will be approximately \$350,000 annually through 2023.

The City is also a Prepay Participant with an obligation to purchase 1.81% of 171 MW (or 3.1 MW), equal to approximately \$1.2 million for each of the years 2010 through 2012.

In 2009, the Wadsworth electric system served 12,192 residential, commercial and industrial customers. The following table lists the City's five largest customers by energy purchased in 2009 and as a percentage of total system revenues during that year.

Customer	Type of Business	kWh Purchased (2009)	% of Total System Revenues
1. Partners in Plastic	Plastic Manufacturing	12,994,800	3.45%
2. Michael Day	Plastic Manufacturing	11,116,800	2.70
3. Myers Industries	Plastic Manufacturing	10,777,500	2.62
4. Goldsmith & Eggleton	Plastic Manufacturing	5,025,000	1.27
5. Rohrer Corp	Packing	4,784,400	1.22

In 2009 the electric system also provided the City with 9,176,840 kWh for general municipal purposes.

**Economic Base:** Wadsworth's economy is based largely on small manufacturing. The Wadsworth area's major industries include the manufacturing of plastic products, building products and foundry works.

The following table provides a summary of certain economic indicators for the City of Wadsworth.

**BUILDING PERMITS**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$20,964,278	\$21,403,499	\$20,501,917

Source: City of Wadsworth

**ASSESSED VALUATION**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
\$461,181,790	\$504,540,540	\$497,610,650

Source: City of Wadsworth 2009 CAFR, page S-14

**UNEMPLOYMENT**

<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010*</u></b>
5.2%	6.1%	8.3%	8.4%

Source: Ohio Labor Market Information, <http://lmi.state.oh.us/>  
 \* As of August 2010, not seasonally adjusted.

**MEDIAN FAMILY INCOME**

<b><u>1990</u></b>	<b><u>2000</u></b>
\$38,067	\$58,850

Source: U.S. Bureau of Census

During 2009 the City formally adopted by City ordinance a cash reserve policy which incorporates guidelines detailing minimum cash reserve balances to be maintained by the Electric System. The following table presents certain financial data respecting the City's Electric System for the calendar years shown, on an accrual basis. The presentation is generally consistent with the flow of revenues of the Electric System required by the OMEGA JV5 Joint Venture Agreement.

	<b>Wadsworth</b>		
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$25,014	\$27,763	\$29,851
Other Income	-	-	-
Total Revenue	<u>25,014</u>	<u>27,763</u>	<u>29,851</u>
<b><u>Operating Expense</u></b> *			
Power Costs	17,370	17,411	20,179
O&M Expense	6,706	6,367	6,267
Total Operating Expense	<u>24,076</u>	<u>23,778</u>	<u>26,446</u>
Net Revenue Available for Debt Service	<u>938</u>	<u>3,985</u>	<u>3,406</u>
OMEGA JV5 Debt Service <sup>(1)</sup>	592	593	592
OMEGA JV2 Debt Service <sup>(1)</sup>	276	275	284
OMEGA JV6 Debt Service <sup>(1)(2)</sup>	30	35	35
Revenue Debt Service	976	1,180	1,134
Depreciation	1,484	1,455	1,417
Net Non-Operating Revenue (Excl Interest Exp.)	(55)	(194)	(56)
Net Transfers	(647) <sup>(3)</sup>	-	-
<b>Net Assets 1/1</b>	18,307	16,600	18,449
<b>Net Assets 12/31</b>	16,600	18,449	19,909
<b><u>Year End Balance</u></b>			
General Obligation Bonds	-	-	340
Revenue Bonds-AMP Bonds	9,148	8,675	8,181

\* Excluding depreciation.

(1) OMEGA JV debt service is included in Power Costs, recovered through Wadsworth's PCA

(2) OMEGA JV6 debt service payments for February through December 2006 were made from excess bond proceeds.

(3) Transfer of capital assets from Electric Fund to Telecom Fund

## ORRVILLE, OHIO

Project Rank	6
Project Percentage	3.36%
Municipality Established	1864
Electric System Established	1917
County	Wayne
Basis of Accounting	Accrual
2009 Peak Demand (kW)	55,777

**Location, Population and Government:** The City of Orrville is a charter city located in Wayne County. The City is located approximately 11 miles northeast of Wooster, Ohio. City Council conducts the legislative or law-making business of the City. The City Council consists of a President of Council and seven members, each elected for staggered four-year terms. One member is selected in each of the four wards and three are elected at large. The City has a mayoral form of government, with the Mayor elected by a city wide election for a four-year term. Mayoral duties are to exercise supervision and control of all departments and divisions of the City and to see that all laws, ordinances and resolutions are faithfully obeyed and enforced. The Mayor is the recognized official and ceremonial head of city government. The Mayor is required to attend Council meetings, but has no vote. The Mayor does, however, have veto power over every ordinance and resolution passed by the City Council. The President of Council is designated by Charter to be acting mayor during such a period when the Mayor is absent from the City or otherwise not accessible or temporarily unable to perform the duties.

The table below sets forth historical population figures for Orrville since 1990.

<u>YEAR</u>	<u>POPULATION</u>
1990	7,712
2000	8,551
2009	8,403 (est.)

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Source: U.S. Bureau of Census

**Economic Base:** Orrville's economy is based on a mix of industrial, commercial and residential development. The City's major industries include various manufacturing facilities including jam and jelly processing, dairy products, pipe organ, and production of grey iron and ductile iron castings.

The following table provides a summary of certain economic indicators for the City of Orrville.

**BUILDING PERMITS**

<u>2007</u>	<u>2008</u>	<u>2009</u>
\$15,170,164	\$16,792,395	\$31,299,126

Source: City of Orrville

**ASSESSED VALUATION**

<u>2007</u>	<u>2008</u>	<u>2009</u>
\$172,706,200	\$172,083,580	\$165,434,340

Source: City of Orrville 2009 CAFR page S22

**UNEMPLOYMENT**

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>
4.8%	5.7%	9.9%	8.9%

Source: Ohio Labor Market Information, <http://lmi.state.oh.us/>  
 \*As of August 2010, not seasonally adjusted

**MEDIAN FAMILY INCOME**

<u>1990</u>	<u>2000</u>
\$32,472	\$46,728

Source: U.S. Bureau of Census

**Electric System:** The Public Utilities Board appoints a Director of Utilities, who is the managing head of the Department of Public Utilities, and is responsible to the Board for the proper operation and maintenance of the utilities which are under the control of the Board, and, with the approval of the Board, for the selection, promotion, demotion, discipline and removal of the other officers and employees of the Department of Public Utilities.

In 2009, Orrville's electric system served approximately 7,035 residential, commercial and industrial customers. The following table lists the City's five largest customers by energy purchased in 2009 and as a percentage of total system revenues during that year.

Customer	Type of Business	kWh Purchased (2009)	% of Total System Revenues
1. Quality Castings	Casting Manufacturing	39,389,630	13.61%
2. JM Smucker	Food Processing	25,661,961	8.38
3. Smith Dairy	Food Processing	18,014,703	6.12
4. Ross Sandcasting	Casting Manufacturing	14,700,571	5.64
5. Bekaert	Shape Wire Production	12,144,843	4.16

The following table presents certain financial data respecting the City's Electric System for the calendar years shown, on an accrual basis.

	<b>Orrville</b>		
	<b>(\$000)</b>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b><u>Revenue</u></b>			
Power Sales	\$25,460	\$28,780	\$21,305
Other Income	617	508	567
Total Revenue	26,077	29,288	21,872
<b><u>Operating Expense</u></b> *			
Power Costs	2,205	2,627	8,512
O&M Expense	20,525	18,942	11,820
Total Operating Expense	22,731	21,569	20,332
Net Revenue Available for Debt Service	3,347	7,719	1,540
Mortgage Revenue Refunding and Improvement Bond Debt Service	3,479	1,848	1,896
Electric Improvement Note Debt Service	28(a)	354	393
Depreciation	2,278	2,033	1,899
Net Non-Operating Revenue (Excl. Interest Exp.)	709	539	593
Net Transfers	897	882	848
Net Assets 1/1	32,887	34,967	41,673
Net Assets 12/31	34,967	41,673	42,137
<b><u>Year End Balance</u></b>			
Mortgage Revenue Refunding and Improvement Bonds	5,072	3,499	1,777
Electric Improvement Note	2,180(a)	1,870	1,570

\* Excluding depreciation

- (a) In 2007 the City issued an electric improvement note. Proceeds were used to refinance a previous Electric Improvement Note as well as to refund the term bond portion of the Electric System Mortgage Revenue Refunding and Improvement Bonds.



### **SECTION III**

#### **SUMMARY OF LARGE PARTICIPANTS' AREA, POPULATION, ASSESSED VALUATION AND UNEMPLOYMENT RATES**

# SUMMARY OF LARGE PARTICIPANTS' AREA, POPULATION, ASSESSED VALUATION AND UNEMPLOYMENT RATES

<u>Participant</u>	<u>County</u>	<u>Area (Sq. Miles)<sup>(1)</sup></u>	<u>Population<sup>(2)</sup></u>			<u>Property Tax Base Assessed Valuation (\$000)<sup>(3)</sup></u>			<u>Unemployment Averages<sup>(4)</sup></u>		
			<u>1990</u>	<u>2000</u>	<u>2009</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2007</u>	<u>2008</u>	<u>2010<sup>(5)</sup></u>
Hamilton, Ohio	Butler	22.1	61,368	60,690	62,746	\$ 946,742	\$ 915,653	\$ 952,930	5.7%	6.7%	10.6%
Cleveland, Ohio	Cuyahoga	82.4	505,616	478,403	431,363	6,114,332	5,937,459	5,513,219	7.6%	8.9%	12.1%
Danville, Virginia	N/A	43.9	53,056	48,411	44,400	2,497,659	2,531,311	2,664,746	7.3%	9.2%	14.0%
Wadsworth, Ohio	Medina	9.5	15,718	18,437	21,001	461,182	504,541	497,611	5.2%	6.1%	8.4%
Paducah, Kentucky	McCracken	19.5	27,256	26,307	25,721	1,422,549	1,457,284	1,451,199	5.0%	5.9%	8.7%
Orrville, Ohio	Wayne	5.3	7,712	8,551	8,403	172,706	172,084	165,434	4.8%	5.7%	8.9%

<sup>(1)</sup> Source: Wikipedia website for Participant.

<sup>(2)</sup> Source: U.S. Census Bureau for years 1990 and 2000, estimated for 2009.

<sup>(3)</sup> Source: Cleveland, Ohio – April 2010 Official Statement, other Ohio Members- Ohio Municipal Advisory Council; Danville, Virginia - City audits; Paducah, Kentucky – Paducah Electric Plant Board for 2007 and 2008, McCracken County Property Valuation Administrator for 2009.

<sup>(4)</sup> Source: Cleveland, Ohio for 2007 and 2008, April 2010 Official Statement; for Cleveland 2009 and 2010 and other Ohio Participants – Ohio Labor Market website; Danville, Virginia – Virginia Workforce Connection website; Paducah, Kentucky – Workforce Kentucky website. For Ohio Participants and Paducah, Kentucky, unemployment averages reflect those for the county.

<sup>(5)</sup> As of August 2010, not seasonally adjusted.

#### **SECTION IV**

### **LARGE PARTICIPANTS' RESIDENTIAL, INDUSTRIAL AND COMMERCIAL INFORMATION**



**SUMMARY OF CERTAIN PROVISIONS OF  
THE AMP-HAMILTON AGREEMENTS**

The following is a summary of certain provisions of the AMP-Hamilton Agreements. The following summary is not to be considered a full statement of the terms of the each agreement and, accordingly, is qualified by reference to the full text of each agreement. Capitalized terms used but not otherwise defined in this Appendix C shall have the meanings given such terms in the AMP-Hamilton agreement summarized where such term appears. Copies of the AMP-Hamilton Agreements are available from AMP.

**PARTICIPATION AGREEMENT**

AMP entered into the Participation Agreement, dated as of March 1, 2009 (the “*Effective Date*”), with the City of Hamilton, Ohio (“*Hamilton*”) to govern the development and operation of the Meldahl Project. The term of the Participation Agreement began on the Effective Date and continues until the retirement from service of the Meldahl Project and the windup events have been completed.

Pursuant to the Participation Agreement, Meldahl, LLC, a Delaware nonprofit limited liability company, will hold legal title to the Meldahl Project assets and will be a co-licensee with Hamilton under the Meldahl License, the license issued by FERC authorizing the Meldahl Project (AMP, as agent for Meldahl, LLC, is a co-licensee under the FERC License for the Project). AMP is required to finance and pay for all development and construction costs in furtherance of the engineering, permitting, construction and related activities required to place the Meldahl Project into commercial operation (the “Meldahl Development and Construction Costs”). AMP must do so separately from any and all other AMP project financings. AMP shall recover from Hamilton sufficient, and only sufficient, amounts to recover Hamilton’s Project Share (as such term is defined in the Power Sales Contract) of costs. All contracts and purchase orders for the Meldahl Project shall be with and through AMP and Meldahl, LLC.

Hamilton shall serve as the Meldahl Project operator. As such, Hamilton has the authority to manage, control, operate and maintain the Meldahl Project to comply with the requirements of the Meldahl License.

The Participation Agreement provides that AMP and Hamilton shall establish a Management Committee consisting of two members, one from each of AMP and Hamilton. The chair of the committee shall alternate between the two members on a two year rotation. Certain matters require unanimity among the Management Committee members, including (i) Meldahl Project financing and refinancing, including but not limited to bond financing, short term financing during construction and financing of the turbines, (ii) annual operating and capital budgets, (iii) budget amendments, (iv) expenditures not provided for in an approved budget, unless in the discretion of Hamilton in its capacity as the Project operator, with the concurrence of the AMP CEO or Senior Vice President, where circumstances reasonably allow, such expenditure must be made to address an emergency or to comply with a license condition and the circumstances do not reasonably allow time to seek advance approval of such expenditure, (v) the execution or termination of any contract, (vi) the authorization of any construction delay or change order, (vii) making or submitting applications for, amending or changing or accepting any conditions to the license or regulatory approvals, and (viii) the issuance of purchase orders in excess of \$25,000.

## **MELDAHL PROJECT DEVELOPMENT AND AGENCY AGREEMENT**

The Meldahl Project Development and Agency Agreement requires the Meldahl Management Committee to develop and approve an initial budget setting forth the Meldahl Development and Construction Costs by month and year anticipated up to and through the Meldahl commercial operation date ("*Meldahl Construction Budget*"). The Meldahl Construction Budget may be amended from time to time by the Meldahl Management Committee.

The Meldahl Project Development and Agency Agreement also requires AMP to execute all contracts and purchase orders. All contracts and purchase orders over \$25,000 must be approved by the Meldahl Management Committee, unless in an emergency situation. With AMP's approval, Hamilton may execute contracts and purchase orders as AMP's agent. AMP shall be fully responsible for the timely payments of all Meldahl Development and Construction Costs as contained in the approved Meldahl Construction Budget and as approved by AMP and Hamilton. However, AMP's responsibility for such costs is limited solely to the proceeds of Bonds and any other funds available from the payments to AMP under the Power Sales Contract.

## **MELDAHL PROJECT OPERATING AGREEMENT**

Pursuant to the terms of the Meldahl Project Operating Agreement, Hamilton will serve as the Meldahl Project operator. As such, Hamilton will be responsible for the day-to-day operation of the Project. Hamilton must perform the work in conformity consistent with the Project budgets, the various Meldahl agreements, Prudent Utility Practice and in compliance with all environmental and other permits, laws and regulations.

The Management Committee will develop an initial estimated Operating Budget consisting of the total Revenue Requirements and will develop such budget on an annual basis. Solely from the revenue of the Bonds or the Power Sales Contract, AMP shall pay or cause to be paid all Operating Expenses comprising the Revenue Requirements to the extent they are included in the applicable operating budget or in response to an emergency. Hamilton is required to provide to AMP monthly Project operations status reports in the form approved by the Management Committee. AMP will be the financial agent for the Meldahl Project and, unless otherwise agreed by the parties, all contracts and purchase orders must be by and through AMP.

AMP shall fund and maintain cash working capital for the Meldahl Project in an amount equal to twenty-five percent (25%) of the annual Operating Budget. For so long as the Power Sales Contract is in effect, AMP must deliver or cause to be delivered to Hamilton on or before the twentieth (20<sup>th</sup>) day of each month, a month-end balance sheet and a month-to-date and year-to-date income statement.

## **OPERATING AGREEMENT OF MELDAHL, LLC**

This agreement governs the operation of Meldahl, LLC. Pursuant to the Operating Agreement, Meldahl, LLC was formed to own, hold, maintain and operate the Meldahl Project. AMP is the sole member of Meldahl, LLC. As the sole member, AMP has no authority to perform any act in violation of any applicable law or regulation or any of the Meldahl agreements between AMP and Hamilton. Meldahl is managed by its sole member AMP which is required to appoint a Board of Directors. The Board has the full and exclusive power to manage the business and affairs and to do or cause to be done anything deemed necessary or appropriate for the business of Meldahl, LLC. The Board consists of three directors appointed by AMP and hold office until their successors are appointed, unless such director dies, resigns, retires or is removed from office. In addition to the directors appointed by AMP, the Board is required to have two independent directors. The Participant with the largest Project Share under the PSC has the

right to appoint all of the independent directors. Without the unanimous consent of the independent directors, in writing, (i) Meldahl, LLC cannot be dissolved, wound up or liquidated or make distributions (if the company would be insolvent, the net assets of the company would be less than zero or the distribution would violate the Meldahl agreements); (ii) it cannot change the nature of its business; (iii) AMP cannot withdraw or transfer its interest; and (iv) the operating agreement and certificate of formation cannot be amended.

#### **MELDAHL PURCHASE, CONSTRUCTION AND OWNERSHIP AGREEMENT**

Pursuant to the terms of the Meldahl Purchase, Construction, and Ownership Agreement, Meldahl, LLC appointed AMP as its general agent for the purchase, construction, ownership and operation of the Project, subject to terms of the other Meldahl agreements regarding, inter alia, the retention of Hamilton for certain services related to the Project. In accordance with the agreement, AMP as agent for Meldahl, LLC, is responsible for the acquisition, permitting design, development, construction, financing, operation, maintenance, repair and decommissioning of the Project and is entitled to arrange for the sale of one hundred percent (100%) of the output from the Project, the collection of Revenue Requirements, issuance of Bonds and such other rights and obligations of Meldahl, LLC and AMP set forth in the other AMP-Meldahl Agreements.

**SUMMARY OF CERTAIN PROVISIONS  
OF THE POWER SALES CONTRACT**

The following is a summary of certain provisions of the Power Sales Contract. The following summary is not to be considered a full statement of the terms of the Power Sales Contract and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Summaries of certain provisions of the Power Sales Contract also appear in the body of the Official Statement. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meaning set forth in the Power Sales Contract. Copies of the Power Sales Contract are available from AMP and the Trustee.

**Definitions and Explanations of Terms.**

AMP/Hamilton Agreements shall mean the Related Agreements between Hamilton, Meldahl, LLC and AMP relating to the Meldahl Project, as summarized in Appendix C to the Official Statement.

Bonds shall mean revenue bonds, notes, bank loans, commercial paper or any other evidences of indebtedness, without regard to the term thereof, whether or not any issue thereof shall be subordinated as to payment to any other issue thereof, from time to time issued by AMP to finance or refinance any cost, expense or liability paid or incurred or to be paid or incurred by AMP in connection with the planning, investigating, engineering, permitting, licensing, financing, acquiring and construction of any and all real or personal property, facilities, rights, licenses, permits that constitute the Meldahl Project, and the refurbishing, operating, maintaining, improving, repairing, replacing, retiring, decommissioning or disposing of the Meldahl Project or otherwise paid or incurred or to be paid or incurred by AMP in connection with the performance of its obligations under the Power Sales Contract or any Related Agreement, and shall include revenue bonds, notes, bank loans, commercial paper, or any other evidences of indebtedness issued by AMP to refund any outstanding revenue bonds, notes, bank loans, commercial paper, or any other evidences of indebtedness issued by AMP for any of the foregoing purposes, as well as the repayment of interim financing for all Developmental Costs advanced by AMP or Hamilton. Bonds shall also include any interest rate hedge, swap instrument and the effect thereof, where the context is appropriate.

Capacity shall mean the Energy per unit of time which an electric generator or system can potentially produce or carry under specified conditions, generally expressed in kW or MW.

Capacity Charge shall mean the rate or charge to the Participants principally designed to recover fixed costs of the Project including those items that comprise Revenue Requirements as set forth in the Power Sales Contract and the Rate Schedule not otherwise recovered.

Commercial Operation Date shall mean the earliest date, confirmed by a certificate by an independent engineer, selected by AMP, that the Meldahl Project is determined to be in service after physical completion, completion of all specified testing and release by its equipment suppliers and contractors for all commercial operating purposes without material restrictions.

Contract or Power Sales Contract shall mean the Power Sales Contract dated as of March 1, 2009, between AMP and the 48 Participants.

Developmental Costs shall mean all development costs incurred by AMP or Hamilton in furtherance of the planning, siting, engineering, permitting, land acquisition and related activities in



connection with the Meldahl Project, which are to be reimbursed to AMP from the proceeds of its first issuance of Bonds, which include the \$4,680,000 Meldahl Participation Payment, and a portion of which may be remitted by AMP to Hamilton in accordance with the AMP/Hamilton Agreements.

Energy shall mean the net energy generated over a specified period of time by the Meldahl Project in kWh or MWh.

Energy Charge shall mean the rate or charge to the Participants, principally designed to recover variable costs of the output of the Meldahl Project.

Environmental Attributes shall mean any and all fuel, emissions, air quality or other environmental characteristics, green tags, renewable Energy or like credits, benefits, reductions, offsets and allowances commencing on the Commercial Operation Date and continuing for the term of the Power Sales Contract, including without limitation any of the same arising out of legislation or regulation concerned with oxides of nitrogen, sulfur or carbon, with particulate matter, soot or mercury, or implementing the United Nations Framework Convention on Climate Change (UNFCCC) or the Kyoto Protocol to the UNFCCC or crediting "early action" emissions reduction, or laws or regulations involving or administered by the Clean Air Markets Division of the Environmental Protection Agency, or any successor agency that is given jurisdiction over a program involving transferability of Environmental Attributes, or any state or federal entity given jurisdiction over a program involving transferability of Environmental Attributes, and any green tag reporting rights to such Environmental Attributes. One unit of Environmental Attributes (a) arises from the generation of one kWh of renewable Energy, one kW of Capacity, the purchase or use of one kWh of net Energy or one kW of Capacity, or the avoidance of the emission of any gas, chemical or other substance into the air, soil or water attributable to such generation, purchase or use, or (b) arising out of any law, rule or regulation.

Environmental Fund shall mean the subfund of the Reserve and Contingency Subfund that may be used from time to time to mitigate Meldahl Project environmental impacts or to moderate volatility in the costs of environmental compliance, including, but not limited to, the funding of reserves for, or the purchase of, allowances or offsets from Participants, AMP or others.

Force Majeure shall mean any cause beyond the control of AMP or a Participant, including, but not limited to, failure of facilities, flood, earthquake, storm, lightning, fire, epidemic, pestilence, war, riot, civil disturbance, labor disturbance, sabotage, and restraint by court or public authority, which by due diligence and foresight AMP or such Participant, as the case may be, could not reasonably have been expected to avoid.

Hamilton shall mean the City of Hamilton, Ohio.

Load Factor shall mean the Participant's Energy scheduled from the Meldahl Project over a time period in MWh, divided by Participant's Project Share in MW multiplied by the hours in the same time period.

Meldahl, LLC shall mean a Delaware not-for-profit limited liability company the single member of which is AMP, and its successors formed by AMP for, among other things, the purpose of owning the Meldahl Project.

Meldahl – Greenup Participation Agreement shall mean the AMP/Hamilton Agreement of that name.

Meldahl Operating and Maintenance Expenses shall mean that portion of Revenue Requirements not paid by the proceeds of Bonds.

Meldahl Project or Project shall mean the acquisition, construction, equipping, testing and placing into service the Meldahl Hydroelectric Project (FERC Project 12667) and all facilities and related equipment used in the production and transformation of electric Power and Energy and related interconnection and transmission facilities as authorized by the Project License as such License may from time to time be amended, having a licensed net electric generating Capacity of approximately one-hundred five megawatts (105 MW), including the sites and all related permits, licenses, easements and other real and personal property rights and interests, together with all additions, improvements, renewals and replacements to said electric generating facilities necessary to keep said facilities in good operating condition or to prevent a loss of revenues therefrom or as required by the Project License, the FERC, or any other governmental agency having jurisdiction.

MISO RTO shall mean the Midwest Independent Transmission System Operator, Inc. or its successor organization.

O&M Expenses of a Participant shall mean (i) the ordinary and usual operating expenses, of its Electric System including purchased power expense and all amounts payable by the Participant to or for the account of AMP under the Power Sales Contract, including its obligations for Step Up Power; and (ii) to the extent not included in (i), all other items included in operating expenses under generally accepted accounting principles as adopted by the Governmental Accounting Standards Board or other applicable authority; provided, however, that if any amount payable by the Participant under the Power Sales Contract is prohibited by applicable law or by an existing contract from being paid as an O&M Expense of the Participant's Electric System, such amount shall be payable from any available funds of the Participant's Electric System and shall constitute an O&M Expense of the Participant's Electric System at such time as such law or contract shall permit or terminate.

Participants Committee shall mean a committee of AMP's Board of Trustees consisting of Participants, the members of which, in the aggregate, have not less than a Super Majority of the Project Shares, organized and operating in accordance with the terms of the Power Sales Contract.

PJM RTO shall mean the PJM RTO or its successor organization.

Point of Delivery shall mean the interconnection point between the Project's facilities and the transmission grid at which AMP shall be required to deliver or make available Capacity and Energy to or for the benefit of each of the respective Participants from the Meldahl Project pursuant to the Power Sales Contract at the PSR.

Postage Stamp Rates or PSR means the total delivered cost to Participants for Capacity Charges, Energy Charges and any power cost adjustments at the Points of Delivery, as specified in the Rate Schedule.

Project Costs shall mean all costs incurred in connection with the planning, investigating, licensing, siting, permitting, engineering, financing, equipping, construction and acquisition of the Project including, without limitation, and the costs of any necessary transmission facilities or upgrades required to interconnect any of the generation facilities of the Meldahl Project to the transmission grid at the interconnection point authorized by the Project License, any other Developmental Costs, all FERC license costs and payments to prior or current licenses associated with securing the rights to any FERC licenses or rights to output associated with the same, any payments in lieu of taxes and interest during construction of the Project, initial inventories, including the purchase of any inventories of emission allowances or

other environmental rights, working capital, spares and other start up related costs, related environmental compliance costs, legal, engineering, accounting, advisory and other financing costs relating thereto and the refurbishing, improving, repairing, replacement, retiring, decommissioning or disposing of the Project, or otherwise paid or incurred or to be paid or incurred by or on behalf of the Participants or AMP in connection with its performance of its obligations under the Power Sales Contract, any Trust Indenture or any Related Agreement.

Project License shall mean the Meldahl Project license, FERC Project No. 12667, issued by the FERC and any modifications or amendments thereto.

Project Operator shall mean Hamilton under the Meldahl Operating Agreement.

Project Share for any Participant expressed in kilowatts (kW) shall mean such Participant's nominal entitlement to Capacity and associated Energy from the Meldahl Project, including any test Energy produced prior to Commercial Operation, such that the sum of all Project Shares (in kW) equals the expected nominal Capacity (in kW) of the Meldahl Project; subject to adjustment as set forth in the Power Sales Contract. Project Share for any Participant expressed as a percentage (%), rounded to the nearest one-hundredth of one percent, shall mean the result derived by dividing such Participant's Project Share in kW, by the total of all of the Participants' Project Shares (including such Participant's Project Share) in kW, such that the sum of all such Project Shares (in %) is one hundred percent (100%). For avoidance of doubt, the Project Share of a Participant, expressed as a percentage (%), rounded to the nearest one-hundredth of one percent, shall control as to what Project Share of Capacity and Energy a Participant is entitled in the event of any conflict between the Project Share expressed in kW and the Project Share expressed in percentage.

Prudent Utility Practice shall mean any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the United States electrical utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It includes a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition.

Rate Schedule shall mean the schedule of rates and charges attached to the Power Sales Contract, as the same may be revised from time to time in accordance with the provisions of said Contract.

Rate Stabilization Fund shall mean the subfund of the Reserve and Contingency Fund that may be used from time to time to moderate volatility of the PSR.

Regulations shall mean the bylaws for Participants and Participants Committee meetings and actions, as the same may be amended from time to time.

Related Agreements shall mean the AMP/Hamilton Agreements, any agreements for interconnection of the facilities comprising the Meldahl Project to the transmission grid, including any agreements for Supplemental Transmission Service and the interconnection agreement for the interconnection of the facilities comprising the Meldahl Project to the PJM RTO or MISO RTO transmission systems, any agreements with the U.S. Army Corps of Engineers relating to the Meldahl Project, other agreements for Transmission Service to enable AMP to meet its obligations to deliver or make available electric Capacity and Energy for the Participants at their respective Secondary Points of Delivery pursuant to the Power Sales Contract, and any agreements for coordination of operations with other hydroelectric projects, all as the same may be amended from time to time.

Reserve and Contingency Fund shall have the meaning set forth in a Trust Indenture and refers to a special fund, including subfunds, established by AMP to accumulate funds sufficient to provide an immediately available source of funds for the extraordinary maintenance, repair, overhaul and replacement of the Project facilities and equipment, to mitigate environmental impacts, achieve environmental compliance or purchase allowances (Environmental Fund) to stabilize or mitigate rate increases to the Participants (Rate Stabilization Fund), to pay amounts equal to the deductibles on insurance policies held for the benefit of the Project, to provide assurance to surety providers (Self-Insurance Fund) and to meet other requirements of a Trust Indenture for which other funds are not, by the terms of a Trust Indenture, immediately available.

RTO shall mean any one of the regional transmission organizations approved by the Federal Energy Regulatory Commission or its successors or assigns, the territory of which includes the transmission systems to which a Point of Delivery is connected.

Secondary Points of Delivery shall mean, if so identified, the receipt point for each Participant which is either (i) a metered point of interconnection with the transmission or distribution system of the Participant or (ii) any other metered point of interconnection designated by a Participant for ultimate delivery of Capacity and Energy from the Points of Delivery to such Secondary Delivery Point under the Power Sales Contract; provided; however, that the Secondary Point of Delivery with respect to any Participant may, with AMP's written approval (which approval shall not be unreasonably withheld), be changed by such Participant.

Self Insurance Fund shall mean the subfund of the Reserve and Contingency Fund that may be used to pay amounts equal to deductible and insurance policies held for the benefit of the Project or provide assurance to surety providers.

Service Fee shall mean AMP's Service Fee B charge of up to one mill (\$0.001) per kWh measured by that amount of all Energy delivered pursuant to the Power Sales Contract to the respective Participants at their respective Points of Delivery under the Power Sales Contract. Said charge may be prospectively increased or decreased at the sole option of AMP's Board of Trustees at any time provided, however, that except as provided below, such fee shall not exceed one mill (\$0.001) per kWh. Service Fee B may be increased above \$0.001 per kWh with the approval of both the AMP Board of Trustees and the Participants Committee.

Step Up Power Costs shall mean that portion of Revenue Requirements that is allocable to a defaulting Participant's payment obligations under the Power Sales Contract.

Super Majority shall mean not less than a seventy-five percent (75%) majority of the weighted vote, based upon Project Shares, of all the Participants.

Supplemental Transmission Service shall mean the power delivery service under any agreements, tariffs and rate schedules necessary or convenient to transmit or make available Capacity and Energy made available to or for the benefit of any Participant for delivery from the Point of Delivery to a Secondary Point of Delivery.

Transmission Service shall mean all transmission arrangements, together with all related or ancillary services rights and facilities, to the extent the same are necessary or prudent to provide for delivery of Capacity and Energy to the Points of Delivery.

Trust Indenture shall mean any one or more trust indentures, trust agreements, loan agreements, resolutions or other similar instruments providing for the issuance and securing of Bonds.

**Sale and Purchase.** (A) AMP agrees to sell to each Participant, and each Participant agrees to buy from AMP, such Participant's Project Share (in %) of the Project as set forth in the Power Sales Contract, subject to increase in an event of default of a Participant.

(B) Subject to the absolute payment obligations of the Participants, AMP (i) shall borrow, and capitalize from the proceeds of such borrowing, all or a portion of the amounts otherwise payable by the Participants in respect of AMP's Revenue Requirements prior to the Commercial Operation Date of the Meldahl Project and (ii) may borrow, and capitalize from the proceeds of such borrowing, all or a portion of the amounts otherwise payable by the Participants in respect of AMP's Revenue Requirements prior to the Commercial Operation Date of the Meldahl Project and for a reasonable time thereafter, or (iii) to the extent that AMP, upon the request and subject to the approval of the Participants Committee, does not borrow and capitalize from the proceeds of such borrowing all of AMP's Revenue Requirements prior to the Commercial Operation Date of the Meldahl Project and for a reasonable period thereafter, AMP shall, to such extent and only upon not less than one hundred twenty (120) days prior written notice, bill the Participants for their Project Shares of up to twenty-five percent (25%) of AMP's Revenue Requirements for such period or, with the approval of a Super Majority of the Participants, up to one hundred percent (100%) of AMP's Revenue Requirements for such period.

(C) If at any time any Participant has Capacity and Energy in excess of its needs, it may request that AMP sell and deliver any or all of said Participant's Project Share of Capacity and Energy available under the Power Sales Contract, and AMP shall use commercially reasonable efforts in consultation with such Participant to attempt to sell such surplus for such Participant at not less than a minimum price approved by the Participant. All net revenues received by AMP from such sales shall be credited against the Revenue Requirements of the Participant.

**AMP Undertakings.** (A) AMP, in good faith and in accordance with the provisions of the Power Sales Contract, the AMP/Hamilton Agreements and Prudent Utility Practice:

shall undertake, or cause to be undertaken, the developing, engineering, acquisition, construction and equipping of the Project; the financing of costs of the same (including financing costs, legal, engineering, accounting and financial advisory fees and expenses and Developmental Costs) and the operating, maintaining, refurbishing, replacing, retiring, decommissioning and disposing of the Project; and to obtain, or cause to be obtained, all Federal, state and local permits, licenses and other rights and regulatory approvals necessary or convenient to accomplish the same;

shall utilize the Project to fulfill its obligations to deliver or make available Capacity and Energy to the Participants at the Point of Delivery and respective Secondary Points of Delivery such obligation shall be subject to the Project's availability; and

shall serve as Meldahl, LLC's agent for all purposes including the purchase, construction, and operation of the Project, subject to, *inter alia*, the provisions of the Meldahl Project Development and Agency Agreement and the Meldahl Project Operating Agreement regarding, *inter alia*, retention of Hamilton for certain services related thereto;

shall inform the Participants Committee on a regular basis, not less often than in conjunction with the regular meetings of the AMP Board of Trustees, of its actions, plans and efforts undertaken in furtherance of the provisions of the Power Sales Contract including review of the Project's proposed annual operating and capital budgets prior to their adoption and to receive and give due consideration to any recommendations of the Participants Committee regarding the same; and

shall submit to the Participants Committee for approval, the general plan of financing for the Project along with any proposed material changes to such general plan as the same may be proposed from time to time.

(B) In the event that, notwithstanding its efforts undertaken in accordance with the Power Sales Contract, AMP is unable to supply all of the Capacity and Energy contracted for by the Participants, it shall allocate the Capacity and Energy available from the Project among the Participants *pro rata*, on the basis of their respective Project Share percentages.

(C) In the event that at any time the Project produces or is capable of producing surplus Capacity, surplus Energy, surplus Transmission Service or Supplemental Transmission Service Capacity, or other surplus rights, products or services that AMP believes may be salable to another entity in light of prevailing market conditions and the characteristics of any such surplus, or which due to prevailing market conditions make it desirable and in the best interests of AMP, the holders of the Bonds or the Participants to sell all or any portion of the Capacity and Energy associated with the Project, AMP shall use commercially reasonable efforts to attempt to sell such surplus Capacity, surplus Energy, surplus transmission Capacity, or other surplus product or service or such Capacity and Energy for such Participant at not less than a minimum price approved by the Participant, on such terms and for such period as AMP deems appropriate and as AMP deems not adverse to the tax or regulatory status or other interests of AMP, the Participants or any Bonds. All net revenues received by AMP from such surplus sales shall be utilized by AMP to reduce the Revenue Requirements that otherwise must be paid by the Participants and thereby offset rates and charges to the Participants under the Power Sales Contract. Any such sales for periods of one year or greater shall be subject to approval by the Participants Committee.

(D) In addition to such sales of Capacity and Energy to any entity permitted by the Power Sales Contract, AMP may (i) sell, on a temporary or permanent basis, or otherwise dispose of Environmental Attributes or other inventory or spare parts for or byproducts from the Meldahl Project or sell, lease or rent any excess land or land rights, including mineral or other subsurface rights and facilities associated with any by-product not required for operation of the Meldahl Project or any other Power Sales Contract Resource or (ii) sell, lease or otherwise dispose of on a temporary or permanent basis any other rights or interests associated with the Project; provided, however, that prior to entering into any such agreement on a permanent basis, or for any term of five (5) years or longer, AMP shall have determined that such disposition will not adversely affect the tax or regulatory status of AMP or any Bonds and, for such sales if the rights or interests are valued in excess of \$500,000 in 2009 dollars, shall have obtained the approval of the Participants Committee and a report or certificate of an independent engineer or engineering firm or corporation having a national reputation for experience in such work to the effect that such permanent sale, lease or other disposition should not, in the ordinary course of operation of the Project, materially adversely affect the operation of the Project or AMP's ability to perform its obligations under the Power Sales Contract.

(E) All Capacity sold or made available under the Power Sales Contract shall include the Capacity, in kW, for all purposes and AMP, upon written request of a Participant, shall provide such Participant with any appropriate certifications reasonably necessary for the Participant to confirm its rights to such Capacity for any purpose, including any requirements of the MISO RTO or the PJM RTO.

(F) AMP covenants that it shall, prior to entering into any such agreements and in consultation with the Participants Committee, adopt, maintain and revise from time to time a written policy respecting any variable rate indebtedness and hedge or swap agreements entered into under the Power Sales Contract, including the circumstances and terms under which any such agreements may be terminated.

(G) Other than for sales of two (2) months or less, AMP shall be obligated to provide the Participants a right of first refusal with respect to the Project, it is understood by the Participants that it may be in the best interests of the Participants for AMP to resell such Project Capacity or Energy immediately and that it may be impracticable for AMP to effectively communicate a *bona fide* offer to all the Participants of such Project Capacity or Energy under the circumstances.

(H) AMP and the Participants recognize that there may be certain Environmental Attributes associated with the Meldahl Project. Each Participant shall be entitled to a share of the benefits associated with all such environmental attributes in proportion to its Project Share, AMP shall adopt, from time to time, with the approval of the Participants Committee, protocols for utilizing or distributing such Environmental Attributes to, or for the benefit of, the Participants; provided, however, that each Participant may retain its right to its Project Share of Environmental Attributes to utilize, manage, sell or transfer such rights independently.

(I) AMP and Hamilton's rights and obligations under the Power Sales Contract are, to the extent applicable, dependent upon, and must be construed to reflect, the rights and obligations of both AMP and Hamilton under the AMP/Hamilton Agreements and as co-licensees under the Project License.

**Rates and Charges; Method of Payment.** (A) After consultation with the Participants Committee, the Board of Trustees of AMP shall establish, maintain and adjust rates or charges, or any combination thereof, as set forth in the Rate Schedule, for the capability and output of the Project sold to the Participants under the Power Sales Contract that result in Postage Stamp Rates and other rates and charges, adjusted as set forth in the Power Sales Contract, at levels that will provide revenues to or for the account of AMP sufficient, but only sufficient, to meet the Revenue Requirements of AMP, which Revenue Requirements shall consist of the sum of the following without duplication:

all costs incurred by AMP under the AMP/Hamilton Agreements;

all costs incurred under other Related Agreements, including, without limitation, all costs to AMP of Transmission Service to make available or for delivery of electric Capacity and Energy under the Power Sales Contract to the Point of Delivery as well as any costs incurred in the event AMP defaults on its obligations and a third party is brought in to perform whatever duties or obligations are not being performed by AMP;

all costs incurred by AMP for the operation and maintenance of the Project, including but not limited to, the costs of equipment and other leases, an appropriate allocation of AMP's energy control center, metering and other common costs of AMP reasonably allocable to the Project and not otherwise recovered by the Service Fee or other fees or charges, such as AMP's Energy Control Center charges, that AMP charges the Participants pursuant to other agreements, the cost to AMP of taxes, payments in lieu of taxes, all permits, licenses and related fees, related to the Project, the cost of insurance and damage claims to the extent associated with the Project, any fuel and fuel related costs, pollution control or emissions costs, fees and allowances, cost of any refunds to any Participant pursuant to the provisions of the Power Sales Contract and (to the extent not paid out of the proceeds of Bonds or related investment income) legal, engineering, accounting and financial advisory fees and expenses;

costs of decommissioning and disposal of the Project, including reserves therefor;

the cost to establish and maintain, or to obtain the agreement of third parties to provide to the extent not included in Project Costs, an allowance for working capital, inventories and spares, including reasonable reserves for repairs, refurbishments, renewals, replacements and other

contingencies deemed necessary by the Board of Trustees of AMP in order to carry out its obligations under the Power Sales Contract;

the cost of power supply engineering, planning and forecasting incurred by AMP in connection with the performance of its obligations under the Power Sales Contract or in attempting to comply with laws or regulations requiring the same to the extent such laws or regulations are applicable to the Project;

the Service Fees not otherwise charged by AMP pursuant to other agreements;

the costs of Supplemental Transmission Services furnished or procured and paid by AMP for the respective Participants as set forth in the Rate Schedule, such costs to be reimbursed to AMP by the respective Participants receiving such services and not through the PSR;

payments of principal of and premium, if any, and interest on all Bonds, payments which AMP is required to make into any fund or account during any period to be set aside for the payment of such principal, premium or interest when due from time to time under the terms of any Trust Indenture (whether, in the case of principal of any Bond, upon the stated maturity or upon prior redemption, including any mandatory sinking fund redemption, under such Trust Indenture), and payments which AMP is required to make into any fund or account to establish or maintain a reserve for the payment of such principal, premium or interest under the terms of any Trust Indenture, provided, however, that the amounts required to be included in Revenue Requirements pursuant to this clause (viii) shall not include payments in respect of the principal of any Bonds payable solely as a result of acceleration of maturity of such Bonds and not otherwise scheduled to mature or to be redeemed by application of mandatory sinking fund payments; provided further, however, that the amounts required to be included in Revenue Requirements pursuant to this clause (ix) may include payments in respect of a termination of a hedge or swap agreement;

amounts required under any Trust Indenture to be paid or deposited into any fund or account established by such Trust Indenture, including any amounts required to be paid or deposited by reason of the transfer of moneys from such funds or accounts to the funds or accounts referred to in clause (ix) above;

the cost to establish and maintain additional reserves, or to obtain the agreement of third parties to provide, for contingencies including (a) a Self-Insurance Subfund containing reserves against deductibles, to provide assurance to surety providers, losses or otherwise established in connection with any program of self-insurance, (b) the making up of any deficiencies in any funds or accounts as may be required by the terms of any Trust Indenture, (c) contributions to any Rate Stabilization Fund or Environmental Fund, subject, to the extent not otherwise required to be paid as a part of Revenue Requirements or required by any Trust Indenture, to approval by the Participants Committee;

amounts required to be paid by AMP to procure, or to perform its obligations under, any liquidity or credit support obligation, interest rate swap or hedging instrument (including, in each case, any amounts due in connection with the termination thereof) associated with any Bonds or amounts payable with respect thereto;

additional amounts, if any, which must be realized by AMP in order to meet the requirements of any rate covenant with respect to coverage of debt service on Bonds under the



terms of any Trust Indenture, and such additional amounts as may be deemed by AMP desirable to facilitate marketing Bonds on favorable terms; and

the repayment to AMP of the \$4.86 million Participation Payment made by AMP to Hamilton with respect to the rights to the Meldahl Project; provided, however, that the Revenue Requirements associated with such repayment shall be allocated among the Participants, other than Hamilton, in accordance with their relative Project Shares; and

and any cost or expenditure associated with the Meldahl Project's compliance with any applicable reliability standards or other standards or requirements of the Project License or otherwise approved or required by the FERC, the U.S. Army Corps of Engineers or other governmental entity having jurisdiction.

less amounts available as a result of any appropriate refunds, rebates, miscellaneous revenues or other distributions relating to the Meldahl Project and any sales of surplus power or any Environmental Attributes, inventory, spare parts, excess land or land rights or any other rights or interest associated with the Project (after payment of all associated costs and expenses incurred by AMP in connection therewith) and less any Bond proceeds or related investment income applied by AMP in the exercise of its discretion to pay any costs referred to in clauses (i) through (xiv) above, provided, however that in the event that any Trust Indenture requires another application of such funds or AMP determines that any of such amounts of proceeds or income must be applied in accordance with the provisions of clause (i) of (J) below, then and to such extent such other application shall be required, such funds shall be so applied.

(B) The Revenue Requirements of AMP in respect of any month shall be computed as provided above and shall be paid by the respective Participants through rates and charges as set forth in the Rate Schedule. In determining the rates and charges under the Power Sales Contract, estimated amounts may be utilized until actual data becomes available, at which time any necessary adjustments necessary to true-up the estimates to actual shall be made.

(C) The rates and charges to each of the Participants under the Power Sales Contract, as set forth on the Rate Schedule, shall be a uniform PSR to the primary Points of Delivery, *provided* that (i) each Participant which receives or has made available to it Capacity and Energy at a Secondary Point of Delivery shall be responsible for the cost of Supplemental Transmission Service or other services related to such delivery and, if not paid to a third party transmission entity by the Participant, shall be charged an additional amount equal to the additional cost to AMP, if any, of delivery to such Secondary Point of Delivery, including any state and local taxes incurred as a result of such delivery or sale, as set forth on the Rate Schedule and (ii) amounts, if any, respecting reactive power requirements or power factor standards as set forth in the Power Sales Contract shall be charged an additional amount equal to such cost; and (iii) *provided further* that the Revenue Requirements related to the repayment to AMP of the \$4.86 million Participation Payment made by AMP to Hamilton with respect to the rights to the Meldahl Project shall be allocated among the Participants, other than Hamilton, in accordance with their relative Project Shares.

(D) After consultation with the Participants Committee, the Board of Trustees of AMP will determine and establish the initial Rate Schedule to be effective on or about the Commercial Operation Date of the Meldahl Project, to meet AMP's Revenue Requirements. At such intervals as the Board of Trustees of AMP shall determine appropriate, but in any event not less frequently than at the end of each quarter during each Contract Year, the Participants Committee and the Board of Trustees of AMP shall review and, if necessary, the Board of Trustees shall revise prospectively the Rate Schedule to ensure that the rates and charges under the Power Sales Contract continue to cover AMP's estimate of all of the

Revenue Requirements and to recognize, to the extent not inconsistent with the Power Sales Contract, other factors and changes in service conditions as it determines appropriate. AMP shall transmit to each Participant a copy of each revised Rate Schedule, setting forth the effective date thereof, for delivery not less than thirty (30) days prior to such effective date. Each Participant agrees that the revised Rate Schedule, as determined from time to time by the Board of Trustees of AMP, shall be deemed to be substituted for the Rate Schedule previously in effect and agrees to pay for electric Capacity and Energy and related Transmission Service made available by AMP to it under the Power Sales Contract after the effective date of any revision of the Rate Schedule in accordance with such revised Rate Schedule. Unless otherwise determined by the AMP Board of Trustees, the Rate Schedule shall be structured so as to consist of: (i) a Capacity Charge, principally designed to recover fixed costs, including the fixed costs of Transmission Service; (ii) an Energy Charge, principally designed to recover the variable costs of providing the output of the Project and the variable costs of Transmission Service; (iii) a Power Cost Adjustment Factor designed to adjust either or both the Capacity Charge or Energy Charge upward or downward to reflect monthly changes in variable costs, any electric sales to third parties and any changes in the cost of Transmission Service; (iv) the Service Fee; and (v) a Participant specific rate for Supplemental Transmission Service for each Secondary Delivery Point to the extent AMP incurs costs related thereto. The determination of the Power Cost Adjustment Factor each month shall be made by appropriate officials designated by the Board of Trustees of AMP according to methodology determined by the Participants Committee and approved by the Board of Trustees, no specific action by the Participants Committee or Board of Trustees to approve the Power Cost Adjustment Factor so determined each month shall be required.

(E) Unless some other time period is otherwise approved by the AMP Board of Trustees and the Participants Committee, in each month after the establishment of the initial Rate Schedule, AMP shall render to each Participant a monthly invoice showing the amount payable by such Participant under the Power Sales Contract with respect to Capacity and Energy, Transmission Service, including any Supplemental Transmission Service or other charges, credits, adjustments or true-ups, applicable to such Participant with respect to the immediately preceding month. Prior to the Commercial Operation of the Meldahl Project, such invoice may include payments with respect to any Bonds issued. Such Participant shall pay such amounts to AMP, at such time and in such manner as shall provide to AMP (or such other person so designated by AMP) funds available for use by AMP (or its designee, including a trustee under any Trust Indenture) on the first banking day not more than the fifteenth (15<sup>th</sup>) day after the date of the issuance of the monthly invoice.

(F) If any Participant does not make a required payment in full in funds available for use by AMP (or its designee) on or before the close of business on the due date thereof, a delayed-payment charge on the unpaid amount due for each day over-due will be imposed at a rate per annum equal to the lesser of (i) the maximum rate permitted by law, and (ii) two percent (2%) per annum above the rate available to AMP through its short-term credit facilities as the same may be adjusted from time to time, together with any damages or losses incurred by AMP, or through AMP, or any other Participant, as a result of such failure to make timely payment which is not compensated by such delayed-payment charge.

(G) In the event of any dispute by any Participant as to any portion of any invoice, such Participant shall nevertheless pay the full amount of the disputed charges when due and shall give written notice of the dispute to AMP not later than one hundred eighty (180) days from the date such payment is due; provided, however, that AMP shall not be required to refund any disputed amounts relating to third-party charges if such notice, although timely, does not afford AMP a reasonable opportunity to pursue a claim against such third-party due to the requirements of a Related Agreement, Supplemental Transmission Agreement, RTO or other Transmission Service provider dispute resolution procedures. Such notice shall identify the disputed invoice, state the amount in dispute and set forth a full statement of the grounds on which such dispute is based. Billing disputes and any subsequent adjustments shall be

limited to the two (2) year period prior to the date timely notice was given; provided, however, that to the extent AMP may reasonably pursue a third-party on account of such dispute for a period longer than such two (2) year period, AMP shall do so and adjustments may, to such extent, relate to such longer period.

(H) In the event that at any time AMP shall determine that it has rendered an invoice containing a billing error, AMP shall furnish promptly to each Participant whose invoice was in error a revised invoice, clearly marked as such, with the error corrected. If the revised invoice indicates that the Participant has been undercharged, the difference between the amount paid by the Participant and the correct amount, together with interest (from the date of payment by the Participant of the incorrect amount to the due date of the invoice next submitted to the Participant after AMP has furnished the revised invoice) at the rate which would apply under the Power Sales Contract to overdue payments by such Participant, less two percent (2%), shall be paid by the Participant to AMP (or such other person designated by AMP) at such time and in such manner as shall provide to AMP (or such other person so designated) funds available for use by AMP (or its designee) on the due date of such next invoice. If the revised invoice indicates that the Participant has been overcharged, the difference between the correct amount and the amount paid by the Participant, together with interest (from the date of payment by the Participant of the incorrect amount to the due date of the invoice next submitted to the Participant after AMP has furnished the revised invoice) at the rate which would apply under the Power Sales Contract to overdue payments by such Participant, less two percent (2%), shall be subtracted by AMP from the invoice next submitted to such Participant (and paid by AMP to the Participant in funds available for use by the Participant on the due date of such next invoice if, but only to the extent by which, the amount so due to the Participant exceeds the amount of the next invoice). The date of payment by the Participant shall mean the date on which funds in the amount so paid first become available for use by AMP (or its designee).

(I) The obligations of each Participant to make its payments shall constitute obligations of such Participant payable as an O&M Expense of its Electric System. No Participant shall be required to make payments under the Power Sales Contract except from the revenues of its Electric System and from other funds of such system legally available therefor. In no event shall any Participant be required to make payments under the Power Sales Contract from tax revenues, or any other source of funds other than its Electric System's funds, but it may elect, in its sole discretion, to do so. The obligations of each Participant to make payments described under this heading in respect of any month or other billing period shall be on a "take-or-pay" basis and, therefore, shall not be subject to any reduction, whether by offset, counterclaim, or otherwise, such payment obligations of such Participant shall not be conditioned upon the performance by AMP or any other Participant of its obligations under the Power Sales Contract, or any other agreement, and such payments shall be made whether or not any generating unit of the Meldahl Project, any other component of the Project is completed, operable, operating and, as long as Bonds remain outstanding, notwithstanding the suspension, interruption, interference, reduction or curtailment, in whole or in part, for any reason whatsoever, of the Project's generating capability or the Participant's Project Share, including Step Up Power, if any; provided, however, that nothing contained in the Power Sales Contract shall be construed to prevent or restrict such Participant from asserting any rights which it may have against AMP under the Power Sales Contract or in any provision of law, including institution of legal proceedings.

For purposes of paragraph (I) above, it should be noted that the City of Coldwater, the City of Wyandotte and the City of Marshall, Michigan (each a "Michigan Participant") each have bond issues outstanding that limit the payments from each under the Power Sales Contract from being considered an O&M Expense of their respective Electric Systems. Therefore, as long as a Michigan Participant's current bond issues remain outstanding, the Michigan Participant's obligations to make payments under the Power Sales Contract (i) shall constitute obligations of such Michigan Participant payable as an O&M Expense of its Electric System so long as such obligations are "take and pay" obligations and (ii) shall

constitute obligations payable from any revenues or other moneys of the Michigan Participant's Electric System legally available for the purpose if and to the extent such obligations are payable on a "take-or-pay" basis. However, once the currently outstanding bonds of a Michigan Participant are no longer outstanding under the terms of their applicable ordinance, all of the Michigan Participant's obligations to make payments under the Power Sales Contract shall constitute obligations of such Michigan Participant payable as an O&M Expense of its Electric System on a "take-or-pay" basis.

(J) Proceeds from the sale of Bonds in excess of the amount required for the purposes for which such Bonds were issued and investment income earned on any investments held under the Trust Indenture shall be applied, subject to the provisions of any Trust Indenture, by AMP, as approved by the Participants Committee (i)(a) to pay principal or interest on the Bonds, (b) to the purchase or redemption of Bonds prior to their stated maturity, (c) to the payment of costs of renewals and replacements of any property constituting a part of the Project, or as a reserve therefor and (ii) as a credit against the Revenue Requirements. Insurance proceeds, condemnation awards and damages received by AMP in connection with the Project and not required to be applied to the restoration, renewal or replacement of facilities, and proceeds from the sale or disposition of surplus property constituting a part of the Project, shall be applied by AMP, subject to approval by the Participants Committee, (a) to the purchase or redemption of Bonds prior to their stated maturity, (b) to the payment of costs of renewals and replacements of any property constituting a part of the Project, or as a reserve therefor by deposit to the Reserve and Contingency Fund, or (c) as a credit against Revenue Requirements. If any Trust Indenture, any instrument of a similar nature relating to borrowings by AMP to finance the Project or any Related Agreement shall require the application of any amount referred to in the foregoing provisions to any specific purpose, AMP shall apply such amount to such purpose as so required.

**Force Majeure.** Neither AMP nor any Participant shall be considered to be in default in respect to any obligation under the Power Sales Contract (other than the obligation of each Participant to make payments) if prevented from fulfilling such obligation by reason of *Force Majeure*. A party rendered unable to fulfill any such obligation by reason of *Force Majeure* shall exercise due diligence to remove such inability with all reasonable dispatch and such party shall promptly communicate with the other regarding such *Force Majeure*, its expected length and the actions being taken to remove the same.

**Insurance.** AMP shall maintain, or cause to be maintained, in force, and is authorized to procure insurance with responsible insurers with policies payable to the parties as their interests shall appear, against risk of direct physical loss, damage or destruction, at least to the extent that similar insurance is mandated by law or usually carried by utilities constructing and operating facilities of the nature of the facilities of the Project, including liability insurance, workers' compensation and employers' liability, all to the extent available at reasonable cost and subject to reasonable deductible provisions, but in no case less than will satisfy all applicable regulatory requirements, including FERC License requirements and requirements of the U.S. Army Corps of Engineers and conform to Prudent Utility Practice. AMP may procure additional insurance subject to the approval of the Participants Committee. Notwithstanding the foregoing, AMP may, to the extent permitted by the Related Agreements, the Trust Indentures and the similar instruments relating to borrowings by AMP to finance the Project and, subject to the approval of the Participants Committee, self-insure or participate in a program of self-insurance or group insurance to the extent it receives a written opinion of a qualified insurance consultant that such self-insurance, after consideration of any existing or required reserve deposits, is reasonable in light of existing programs of comparable utilities constructing and operating facilities of the nature of the facilities of the Project.

**Bonds; Trust Indenture; Power Sales Contract.** (A) AMP shall issue Bonds for the purpose of paying Project Costs as well as all or any part of the costs of planning, engineering, siting, permitting,

acquiring, constructing, improving, repairing, restoring, renewing or refurbishing the Project, including, without limitation, reimbursement of all Developmental Costs or to refund any outstanding Bonds, all upon such terms and pursuant to one or more Trust Indentures having such terms as AMP, in its sole discretion and exclusive judgment, deems necessary or desirable to enable AMP to fulfill satisfactorily its obligations under the Power Sales Contract; provided, however, that AMP shall not issue Bonds having a final maturity date extending beyond the later of 2057 or the initial estimated useful life of the Project, as estimated, in a report or certificate of an independent engineer or engineering firm or corporation having a national reputation for experience in electric utility matters. All Bonds, any Trust Indenture, and all revenues and other funds of AMP allocable to the Participants and to the Power Sales Contract, other than the Service Fee, shall be separate and apart from all other borrowings, indentures, revenues, and funds of AMP. AMP shall not pledge or assign any of its right, title or interest in, to or under any of the foregoing, the Power Sales Contract or the Project, or otherwise make available any thereof, to secure or pay any indebtedness or obligation of AMP or as otherwise expressly permitted by the Power Sales Contract.

(B) (i) Each Participant acknowledges that it is the intention of AMP and the Participants to (a) utilize, to the maximum extent possible, the proceeds of Bonds the interest on which is excluded from gross income for Federal income tax purposes ("Tax-exempt Obligations") under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), to finance the costs of the Project and related costs and (b) enable AMP to issue Bonds that are Tax-exempt Obligations. Each Participant acknowledges that at any time that AMP issues Tax-exempt Obligations, each Participant must expect to own and not expect to sell or otherwise dispose of or change the use of its rights to output of the Project prior to the final maturity date of the respective Tax-exempt Obligations;

(ii) Each Participant acknowledges that output contracts with nongovernmental persons for the purchase of electricity produced by a generating facility financed with Tax-exempt Obligations may result in private business use of such generating facilities, that contracts with nongovernmental persons for transmission and distribution services financed with Tax-exempt Obligations may result in private business use of such transmission and distribution facilities and that only a limited amount of private business use is permitted under the Federal income tax laws addressing Tax-exempt Obligations;

(iii) Each Participant represents, warrants and covenants that, notwithstanding any other provisions of the Power Sales Contract, it will take all actions necessary to enable AMP to issue Bonds as Tax-exempt Obligations to finance the Project and related costs and facilities;

(iv) Each Participant represents, warrants and covenants that it will not take any action (including but not limited to entering into output contracts), or fail to take any action, that would adversely affect the exclusion from gross income for Federal income tax purposes of interest on any Tax-exempt Obligations. Each Participant represents, warrants and covenants that its interest in the Project will be used for the governmental purpose of such Participant while such Participant owns rights to output of the Project. In addition, each Participant represents, warrants and covenants that it will take no action (including but not limited to entering into output contracts) or fail to take any action which action or failure would cause the Tax-exempt Obligations issued by AMP to become private activity bonds, including qualified 501(c)(3) Bonds, and will not dispose of or change the use of its Electric System unless an opinion of nationally recognized bond counsel acceptable to AMP is received stating that such action will not have an adverse effect on the exclusion from gross income for Federal income tax purposes of interest on the Bonds issued as Tax-exempt Obligations;

(v) Each Participant represents, warrants and covenants that it will establish reasonable procedures to ensure that no action is taken by it that would cause any Bonds issued as Tax-

exempt Obligations to meet the private business use test or the private loan test of Section 141 of the Code and to ensure continued qualification of the Bonds issued as Tax-exempt Obligations; and

(vi) Each Participant acknowledges that AMP annually files Form 990 with the Internal Revenue Service and that information required to complete such form includes the percentage of tax-exempt financed property used in a private business use. Each Participant covenants that, if requested, it will provide AMP a report or data by March 31, of each year setting forth such information as is required for AMP to complete IRS Form 990.

(C) Each Participant with a Project Share in excess of 5% will be deemed by AMP to be an "obligated person" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and agrees to furnish to AMP annually, no later than October 1 of each year and to the extent required for AMP to comply with its undertakings made pursuant to such Rule, (i) information updating the financial and operating data respecting the Participant and its Electric System, which data was presented or included by specific reference in an official statement or other comparable document of AMP prepared in connection with the offering of its Bonds, and (ii) the Participant's financial statements relating to its Electric System, when they become publicly available, and prepared in accordance with generally accepted governmental accounting standards or otherwise as required by law.

#### **Disposition or Termination of the Meldahl Project.**

Unless otherwise required by the AMP/Hamilton Agreements, for so long as any Bonds are outstanding, except as otherwise permitted in the Power Sales Contract, Meldahl, LLC shall not sell or otherwise dispose of, in whole or in part, its ownership interest in the Meldahl Project without the consent of a Super Majority of the Participants. The Power Sales Contract does not prohibit (i) a merger or consolidation or sale of all or substantially all of the property of AMP, (ii) any sale, lease or other disposition or arrangements permitted by the Power Sales Contract or (iii) the mortgaging, pledging or encumbering of all or any portion of AMP's ownership interest in the Meldahl Project pursuant to any Trust Indenture to secure any Bonds. Subject to the provisions of the AMP/Hamilton Agreements or other Related Agreements, any facilities of the Meldahl Project shall be terminated and Meldahl, LLC (or AMP as agent thereof) shall cause such facilities to be salvaged, discontinued, decommissioned, and disposed of or sold in whole or in part on such terms as both the AMP Board of Trustees, Hamilton as co-licensee and the Participants Committee determine to be reasonable and appropriate when:

so required pursuant to any Related Agreement; or

Meldahl, LLC, the AMP Board of Trustees, Hamilton as co-licensee and the Participants Committee determine that AMP is unable to operate such facilities due to licensing or operating conditions or other similar causes; or

Meldahl, LLC, the AMP Board of Trustees, Hamilton as co-licensee and the Participants Committee determine that such facilities are not capable of producing or delivering energy consistent with Prudent Utility Practice; or

Should any party disagree with a decision to cause any Project facilities to be salvaged, discontinued, decommissioned and disposed of, or sold, such party shall have a right of first refusal, under such reasonable terms and conditions as approved by Meldahl, LLC, AMP, Hamilton as co-licensee and the Participants Committee, such approval not to be unreasonably withheld, to purchase any such facilities at their then fair market value or such lesser value as may be approved by a Super Majority of the Participants. In such case the parties shall cooperate

to close such transaction in a commercially reasonable time and to make such filings, including amendment of the Project License as required to consummate such transaction.

**Additional Covenants of the Participants.** (A) Each Participant covenants and agrees to establish and maintain rates for electric power and energy to its consumers which shall provide to such Participant revenues at least sufficient, together with other available funds, to meet its obligations to AMP under the Power Sales Contract; to pay all other O&M Expenses; to pay all obligations, whether now outstanding or incurred in the future, payable from, or constituting a charge or lien on, the revenues of its Electric System; and to make any other payments required by law.

(B) Each Participant covenants and agrees that, unless the Power Sales Contract has been assigned, it shall not sell, lease or otherwise dispose of all or substantially all of its Electric System except on 180 days' prior written notice to AMP and, in any event, shall not so sell, lease or otherwise dispose of the same unless AMP shall reasonably determine that all of the following conditions are met: (i) such Participant shall assign the Power Sales Contract and its rights thereunder (except as otherwise provided in the last sentence of this paragraph) in writing to the purchaser or lessee of the Electric System and such purchaser or lessee, as assignee of rights and obligations of such Participant under the Power Sales Contract, shall assume in writing all obligations (except to the extent theretofore accrued) of such Participant under the Power Sales Contract or such Participant shall post a bond or other security, in either case reasonably acceptable to AMP, to assure its obligations under the Power Sales Contract are fulfilled and clauses (iv) (a), (b) and (c) below are satisfied; (ii) if and to the extent necessary to reflect such assignment and assumption, AMP and such assignee shall enter into an agreement supplemental to the Power Sales Contract to clarify the terms on which Capacity and Energy are to be sold by AMP to such assignee; (iii) the senior debt of such assignee shall be rated in one of the four highest whole rating categories, without regard to sub-categories represented by + or – or similar designations, by at least one nationally recognized bond rating agency or if such entity is not rated, AMP and any trustee under any Trust Indenture shall receive an opinion from a nationally recognized financial expert that the assignment does not materially adversely affect the security for any Bonds; and (iv) AMP shall have received an opinion or opinions of counsel of recognized standing selected by AMP stating that such assignment (a) will not adversely affect any pledge and assignment by AMP of the Power Sales Contract or the revenues derived by AMP thereunder (other than the Service Fee) as security for the payment of Bonds and the interest thereon, (b) is lawfully permitted under applicable law, and (c) will not affect the regulatory or tax status of AMP or any Bonds. Notwithstanding the foregoing, if AMP reasonably determines that the assignment of the Power Sales Contract, pursuant to the immediately preceding sentence in connection with the sale, lease or other disposition of a Participant's Electric System, could reasonably be expected to result in any increase in the rates and charges to any of the remaining Participants for Capacity and Energy and associated Transmission Service made available under the Power Sales Contract, AMP may, by delivery of written notice thereof sent no later than 120 days following receipt by AMP of notice sent pursuant to the immediately preceding sentence, refuse to approve such sale, lease or other disposition and, should the Participant nonetheless and in contravention of the provisions of the Power Sales Contract proceed with such sale, lease or other disposition, terminate, effective upon such sale, lease or other disposition, all of such Participant's rights under the Power Sales Contract (except to the extent of any rights theretofore accrued); provided, however, that prior to the effective date of any such termination AMP shall have arranged for the assignment by such Participant of its rights (except as otherwise in the last sentence of this paragraph) and obligations (except to the extent theretofore accrued) under the Power Sales Contract to another entity which assumes in writing all obligations of such Participant (except to the extent theretofore accrued) and which satisfies each of the conditions set forth in clauses (ii) through (iv) of the immediately preceding sentence; provided, further, that nothing contained in this paragraph shall be construed to prevent or restrict any Participant from issuing mortgage revenue bonds (subject to the provisions of (E) below of this heading) secured by a mortgage of the property and revenues of such

Participant's Electric System, including a franchise. Each Participant agrees to cooperate in effecting any assignment pursuant to the immediately preceding sentence.

(C) Each Participant covenants and agrees that it shall take no action the effect of which would be to prevent, hinder or delay AMP from the timely fulfillment of its obligations under the Power Sales Contract, any Related Agreement, any then outstanding Bonds or any Trust Indenture; provided, however, that nothing contained in the Power Sales Contract shall be construed to prevent or restrict such Participant from asserting any rights which it may have against AMP or under any provision of law, including institution of legal proceedings for specific performance or recovery of damages.

(D) Each Participant covenants and agrees that it shall, in accordance with Prudent Utility Practice, (i) operate the properties of its Electric System and the business in connection therewith in an efficient manner, (ii) maintain its Electric System in good repair, working order and condition, and (iii) make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Electric System; provided, however, that this covenant shall not be construed as requiring such Participant to expend any funds which are derived from sources other than the operation of its Electric System, although nothing herein shall be construed as preventing such Participant from doing so.

(E) Each Participant covenants and agrees that it shall not issue bonds, notes or other evidences of indebtedness or incur lease or contractual obligations which are payable from the revenues derived from its Electric System superior to the payment of the O&M Expenses of its Electric System; provided, however, that nothing shall limit such Participant's present or future rights (i) to incur lease or contractual obligations that, under generally accepted accounting principles, are operating expenses of its Electric System and that are payable on a parity with O&M Expenses or (ii) to issue bonds, notes or other evidences of indebtedness payable from revenues of its Electric System subject to the prior payment or provision for the payment of the O&M Expenses, including amounts payable under the Power Sales Contract, of its Electric System.

(F) Each Participant covenants and agrees that not later than the date on which it issues bonds, notes or other evidences of indebtedness or incurs capital lease or take-or-pay contractual obligations which are payable from the revenues of its Electric System on a parity with O&M Expenses it will provide to AMP, with a copy to the Participants Committee, of an independent engineer's estimation that such issuance or incurrence will not result in total O&M Expenses and debt service in excess of the revenues of the Participant's Electric System adjusted for any rate increases enacted by the governing body of the Participant prior to such issuance or incurrence in the fiscal year immediately preceding the issuance of such obligations.

(G) Each Participant agrees to use all commercially reasonable efforts to take all actions necessary or convenient to fulfill all of its obligations under the Power Sales Contract.

(H) Each Participant agrees that, prior to any assignment of its rights under the Power Sales Contract it shall grant to AMP, for the benefit of the remaining Participants, a right of first refusal for a period of not less than one hundred twenty (120) days to match any *bona fide* offer for such assignment.

(I) Each Participant that has some contractual or other legal impediment to its payment obligations to AMP under the Power Sales Contract being classified under applicable law or any trust indenture securing bonds payable from the revenues of its Electric System as O&M Expenses, covenants and agrees that it will in good faith endeavor to remove any such contractual or other legal impediments at the earliest possible time.



**Default.** (A) In the event any payment due from any Participant under the Power Sales Contract remains unpaid subsequent to the due date thereof, such event shall constitute a default under the Power Sales Contract and AMP may, upon fifteen (15) days prior written notice to and at the cost and expense of such defaulting Participant (i) withhold any payments otherwise due such Participant and suspend deliveries or availability of such defaulting Participant's Project Share to or on behalf of the defaulting Participant, (ii) bring any suit, action or proceeding at law or in equity as may be necessary or appropriate to enforce any covenant, agreement or obligation against the defaulting Participant, and (iii) take any other action permitted by law to enforce the Power Sales Contract. Upon suspension of the rights of the defaulting Participant as provided in the immediately preceding sentence, AMP shall be entitled to and may, sell or make available, from time to time, to any other person or persons any Capacity or Energy associated with the defaulting Participant's Project Share, and any such sale may be on such terms and for such periods deemed necessary or convenient in AMP's judgment, which shall not be exercised unreasonably, to make such sale under then existing market conditions; provided, however, that no such sale shall be made for a period exceeding two (2) months. Any such sale of such Project Share contracted for by AMP shall not relieve the defaulting Participant from any liability under the Power Sales Contract, except that the net proceeds of such sale shall be applied in reduction of the liability (but not below zero) of such defaulting Participant. When any default giving rise to the suspension of the rights, including the delivery of Capacity and Energy of the defaulting Participant, has been cured in less than sixty (60) days subsequent to such default and payment has been made by the defaulting Participant to AMP of all costs and expenses incurred as a result of such default, the Participant which had been in default shall be entitled to the restoration of its rights, including a resumption of delivery of its Project Share or other service, subject to any sale to others of its Project Share made by AMP. AMP shall promptly notify all Participants in writing of any default by any other Participant, which remains uncured for thirty (30) days or more.

(B) (i) If any Participant shall fail to pay any amounts due under the Power Sales Contract, or to perform any other obligation thereunder, which failure constitutes a default under the Power Sales Contract and such default continues for sixty (60) days or more, AMP may, in addition to any other remedy available at law or equity, terminate the provisions of the Power Sales Contract insofar as the same entitle the Participant to a Project Share and during such default, the defaulting Participant shall not be entitled to any vote on the Participants Committee or any matter which requires a vote of the Participants; but, the obligations of the Participant under the Power Sales Contract shall continue in full force and effect. AMP shall forthwith notify such Participant of such termination.

(ii) Upon the termination of entitlement to a Project Share as provided in the preceding paragraph, AMP shall attempt to sell the defaulting Participant's Project Share, first to other Participants, then to Members who are not Participants and then to other persons, and, to the extent such defaulting Participant's obligations are not thereby fulfilled, each non-defaulting Participant shall purchase, for so long as such default remains uncured, a *pro rata* share of the defaulting Participant's entitlement to its Project Share which, together with the shares of the other non-defaulting Participants, is equal to the defaulting Participant's Project Share in kilowatts ("Step Up Power"); provided; however, that no such termination shall reduce the defaulting Participant's obligations under the succeeding paragraph; and, provided further, however, that the sum of all such increases for each non-defaulting Participant pursuant to this paragraph shall not exceed, without consent of the non-defaulting Participant, an accumulated maximum kilowatts equal to one hundred six percent (106%), or such lesser percentage as set forth in any Trust Indenture, of such non-defaulting Participant's initial Project Share in kilowatts prior to any such increases. AMP shall mail written notice and may, at its option, also transmit the same by electronic means, to each non-defaulting Participant of the amount of any Step Up Power as soon as practicable. All Step Up Power Costs shall be determined consistent with and be treated as a part of Revenue Requirements and shall be paid by the non-defaulting Participant in accordance with the Power Sales Contract. Within twenty (20) days after the notice of default by any other Participant, a Participant may

notify AMP in writing of its election to purchase voluntarily Step Up Power under the terms and conditions described under this heading in any amount more than that which would otherwise be its *pro rata* share and up to the amount of the defaulting Participant's Project Share. Such purchase shall continue for so long as the default is not cured. To the extent the sum of such voluntary elections is greater than the amount of Step Up Power to be distributed, the same shall be distributed among the Participants so electing in proportion to the amounts requested. To the extent the sum of such voluntary elections is less than the defaulting Participant's Project Share, the remainder shall be distributed *pro rata* among the remaining Participants as Step Up Power. Non-defaulting Participants assuming Step-Up Power shall be entitled to exercise all voting rights associated with all amounts of Step Up Power taken or assigned.

(iii) The fact that other Participants have assumed their obligations for Step Up Power Costs shall not relieve the defaulting Participant of its liability for such payments and all Participants assuming such obligation (voluntarily or otherwise), either individually or as a member of a group, shall have a right of recovery from the defaulting Participant of all damages occasioned thereby. AMP in consultation with the Participants Committee may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of the Power Sales Contract against the defaulting Participant.

(C) In the event of default by a Participant in the payment of any of the sum or sums now or hereafter secured, or in the performance of any of the covenants and conditions of the Power Sales Contract; or in the event Participant shall for any reason be rendered incapable of fulfilling its obligations thereunder; or final judgment for payment of money shall be rendered against Participant which adversely affects its ability to fulfill its obligations, and any such judgment shall not be discharged within 60 days from the entry thereof or an appeal shall not be taken therefrom or from the order, decree or process upon which, or pursuant to which, such judgment shall have been granted, or entered, in such manner as to stay the execution of, or levy under, such judgment, order, decree, or process or the enforcement thereof, or any proceeding shall be instituted with the consent or acquiescence of Participant for the purpose of effecting a compromise between Participant and its creditors, or for the purpose of adjusting the claims of such creditors pursuant to any Federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Participant's Electric System revenue or its rights under the Power Sales Contract; or if (a) Participant is adjudged insolvent by a court of competent jurisdiction which assumes jurisdiction of Participant's Electric System, or (b) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of Participant, a receiver or trustee of Participant or of the whole or any part of Participant's Electric System and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof; or if Participant shall file a petition or answer seeking reorganization or any arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, which would place jurisdiction of Participant's Electric System in other than Participant; then, in addition to all other remedies, including the remedy of specific performance, AMP shall have the right and power to, and may, at its sole option, by notice in writing to the Participant, apply for the appointment of a receiver of rents, income and profits of the Participant's Electric System received or receivable by Participant as a matter of right and as security for the amounts due AMP without consideration of the value of Participant's Electric System, or the solvency of any person or persons liable for the payment of such amounts, the rents, income and profits of the Participant's Electric System received or receivable by Participant being hereby assigned by Participant to AMP as security for payment of the sum or sums now or hereafter secured by the Power Sales Contract.

(D) If any Participant has defaulted and all or any portion of such Participant's Project Share has become Step Up Power, such Participant may cure such default and restore its rights under the Power

Sales Contract by paying all arrearages and all liabilities otherwise owing due to such default, net of the proceeds of any sales pursuant to the Power Sales Contract and of the recovery of Step Up Power Costs. Such defaulting Participant shall also pay, as liquidated damages and not as a penalty in recognition of the difficulty in precisely measuring damages to the non-defaulting Participants caused by reason of such written notice of the defaulting Participant, an amount equal to the product of one hundred twenty-five percent (125%) of the defaulting Participant's Project Share of the Capacity Charges paid by the non-defaulting Participants as Step Up Power Costs, multiplied by the "Prime Rate" as published in "Money Rates" in the *Wall Street Journal*, or, if in determination of AMP, the Prime Rate is no longer publicly available, then the prime rate values published in the Federal Reserve Bulletin plus, in any case, two percent (2%), and such amount shall be paid to the non-defaulting Participants in proportion to their respective payments of Step Up Power Costs. If at any time before the entry of final judgment or decree in any suit, action or proceeding instituted by AMP on account of default, or before the completion of the enforcement of any other remedy under the Power Sales Contract or law, a defaulting Participant shall pay all sums then payable by their stated terms, and all arrears of interest, if any, upon said sums then outstanding and the charges, compensation, expenses, disbursements, advances and liabilities of AMP, and all other amounts then payable by Participant under the Power Sales Contract, and every other default of which AMP has notice shall have been remedied to the satisfaction of AMP, then and in every such case AMP shall, and if such default continued for a period greater than one (1) year, AMP may, with the approval of its Board of Trustees and the Participants Committee, and to the extent another Participant has voluntarily "stepped up" for all or a portion of such defaulting Participant's entitlement to its Project Share, with the approval of such other Participant, rescind and annul the declaration of default and its consequences, provided, however, that no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

(E) AMP shall provide timely reports to the Participants Committee of any Participant defaults and actions taken by AMP.

(F) Should AMP default on any of its obligations under the Power Sales Contract and such default continues for a period of thirty (30) days, any Participant or the Participants Committee may give AMP written notice of such default. Subject to the provisions of any Trust Indenture, should AMP not cure such default, or provide the Participants Committee with a satisfactory plan to cure such default within sixty (60) days of such written notice, then by the affirmative vote of a Super Majority of the Participants, AMP may be directed to contract with a third party to perform whatever duties or obligations which are in default. The costs of such contract shall be included in Revenue Requirements.

**Modification or Amendment.** The Power Sales Contract shall not be amended, modified or otherwise changed except by written instrument executed and delivered by AMP and each of the Participants; provided, however that the Power Sales Contract shall not in any event be amended, modified or otherwise changed in any manner that will materially adversely affect the security afforded by the provisions of the Power Sales Contract for the payment of the principal, interest, and premium, if any, on the Bonds, except as, and to the extent, permitted by any Trust Indenture.

**Dispute Resolution.** The Parties agree to negotiate in good faith to settle any and all disputes arising under the Power Sales Contract. Representatives of the Participants Committee and AMP Board of Trustees shall participate in any such negotiations. Good faith mediation shall be a condition precedent to the filing of any litigation in law or equity by any party against any other party, except injunctive litigation necessary to solely restrain or cure an imminent threat to the public or employee safety.

The parties may mutually agree to waive mediation or subsequent to mediation waive their right to litigate in court and, in either case, submit any dispute to binding arbitration, if permitted by law, before one or more arbitrators pursuant to the Commercial Arbitration Rules of the American Arbitration

Association or such other arbitration procedures to which they may agree. Such agreement shall be in writing and may otherwise modify the procedures set forth in this section for resolving any particular dispute.

**Term of Contract.** The Power Sales Contract shall remain in effect until the expiration of the Project License, estimated, as of March 1, 2009, to be no earlier than May 31, 2058, and thereafter, unless otherwise required by law, until (i) the date the principal of, premium, if any, and interest on all Bonds have been paid or deemed paid in accordance with any applicable Trust Indenture; and (ii) a Super Majority of the Participants recommends the Power Sales Contract be terminated; provided, however, that each Participant shall remain obligated to pay to AMP its respective share of the costs of terminating, discontinuing, disposing of, and decommissioning the Project unless AMP, in its sole discretion, elects not to terminate, discontinue, dispose of or decommission in connection with or prior to the termination of the Power Sales Contract. In the event that a Super Majority of the Participants does not elect to terminate the Power Sales Contract, each Participant that so elects may continue to receive its Project Share of the Capacity and Energy available to AMP from the Project at rates which reflect the absence of payments with respect to Bonds and any Participant that does not so elect may discontinue taking any power and energy under the Power Sales Contract and shall have no other liability except as otherwise specified in the Power Sales Contract. Neither termination, cessation of taking Capacity and Energy under the Power Sales Contract, nor expiration of the Power Sales Contract shall affect any accrued right, liability or obligation thereunder.

**Meldahl, LLC/AMP.** Notwithstanding any other provision of the Power Sales Contract, as the owner of the Meldahl Project, Meldahl, LLC retains the ultimate rights (i) to the output of the Meldahl Project and, (ii) to sell the output to the Participants to receive all payments respecting Revenue Requirements; and retains the obligations respecting ownership and operation of the Project under the Power Sales Contract and under the Meldahl, LLC/AMP Purchase, Construction and Ownership Agreement. AMP's rights and obligations under the Power Sales Contract, except for AMP's right to receive Service Fees, shall be solely as agent for Meldahl, LLC and include the rights to receive and assign those portions of the Revenue Requirements intended to provide for the payment and security of Bonds as provided in a Trust Indenture.

**SUMMARY OF CERTAIN PROVISIONS  
OF THE INDENTURE**

The following is a summary of certain provisions of the Master Trust Indenture (the “Master Indenture”), as the same may be amended and supplemented by Supplemental Indentures from time to time (as so amended and supplemented, the “Indenture”). The following summary is not to be considered a full statement of the terms of the Master Indenture and, accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meaning set forth in the Master Indenture. Copies of the Master Indenture may be obtained from AMP or the Trustee.

**Definitions**

“AMP Operating Expenses” means for any period AMP’s Service Fee (as defined in the Power Sales Contract) and AMP’s reasonable and necessary current expenses for the operation, repair and maintenance of the Project, as determined in accordance with generally accepted accounting principles except as modified by this definition, and shall include, without limiting the generality of the foregoing, all ordinary and usual expenses of maintenance, repair and operation, which may include expenses not annually recurring, administrative expenses, any reasonable payments to pension or retirement funds properly chargeable to the Meldahl Project Fund, payments due and owing Hamilton under the terms of the Meldahl Operating Agreement, amounts owing to FERC under the Project License, insurance premiums, engineering expenses relating to maintenance, repair and operation, fees and expenses of the Trustee, Depositories, Paying Agents and the Bond Registrar, legal expenses, fees of consultants, any taxes which may be lawfully imposed on or are fairly allocable to AMP with respect to the Project, or payments in lieu of such taxes, or the income therefrom, operating lease payments, the Operating Component of the Cost of Contracted Services, and all other payments, not chargeable to the capital account of the Project, to be made by AMP under the Power Sales Contract and any other expenses required or permitted to be paid by AMP under the provisions of the Master Indenture including, but not limited to, subject to the terms of any related agreement or Supplemental Indenture, costs, fees and expenses (but not early termination obligations) associated with the investment of the proceeds of Parity Obligations or with Derivative Agreements (excluding Derivative Agreements related to Subordinate Obligations), but shall not include any reserves or expenses for extraordinary maintenance or repair or any allowance for depreciation, but AMP Operating Expenses shall not include (i) depreciation or amortization, (ii) any deposit to any fund, subfund, account and subaccount established under The Master Indenture or any Supplemental Indenture or any payment of principal, redemption premium, if any, and interest on any Bonds from any such fund, subfund, account and subaccount, (iii) any debt service payment in respect of Parity Debt or Subordinate Obligations, or (iv) early termination obligations associated with the investment of the proceeds of Indebtedness, Gross Receipts or Net Receipts or other moneys held under the Indenture or with Derivative Agreements.

“Annual Budget” means the budget, adopted by the Board of AMP, of Gross Receipts and AMP Operating Expenses including, as separate line items, extraordinary expenses for repairs, renewals, rehabilitation and improvement of the Project and capital expenditures for the Project for a Fiscal Year, as the same may be amended from time to time, all in accordance with the provisions of the Master Indenture.

“Bond” or “Bonds” means the bonds or notes issued under the provisions of the Master Indenture and secured on parity with each other and any Parity Debt by the Master Indenture.

“Commercial Operation Date” means the earliest date, determined in a certificate by an independent engineer selected by AMP, that all of the generating units of the Project are determined to be in service, after completion of all testing and release by the units’ equipment suppliers and contractors, for all commercial operating purposes without material restrictions.

“Completion Date” means with reference to each Project the Commercial Operation Date of last of the units included in such Project to be placed in service.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement, bond insurance policy or similar liquidity or credit facility established or obtained in connection with the issuance of any Bonds, incurrence of any other Parity Debt or incurrence of any Subordinate Obligations.

“Credit Provider” means the Person providing a Credit Facility, as designated in the Supplemental Indenture authorizing the issuance of a Series of Bonds or in the Parity Debt Indenture authorizing the incurrence of Parity Debt or in the Subordinate Obligations Indenture authorizing the incurrence of Subordinate Obligations.

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing the Net Revenues by the Maximum Annual Debt Service Requirement for such period.

“Debt Service Requirement” means, for any period for which such determination is made, the sum, on an accrual basis, of the Principal Requirement and the Interest Requirement for such period (whether or not separately stated) on Outstanding Indebtedness during such period, taking into account:

(i) with respect to Balloon Indebtedness, the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis, at an interest rate equal to the current market rate for a fixed rate, 30-year obligation, set forth in an opinion, delivered to the Trustee, of a banking institution or an investment banking institution, selected by AMP and knowledgeable in municipal finance, as the interest rate at which the Person that incurred such Indebtedness could reasonably expect to borrow the same by incurring Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation;

(ii) with respect to Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness, the interest rate on such Indebtedness on the date of its incurrence shall be calculated at the lesser of (a) the initial rate at which such Indebtedness is incurred and (b) the rate certified by a banking institution or an investment banking institution, selected by AMP and knowledgeable in municipal finance, as being the average rate such Indebtedness would have borne for the most recent twelve-month period immediately preceding the date of calculation if such Indebtedness had been outstanding for such period, and thereafter shall be calculated as set forth above; provided, however, that if AMP enters into a Derivative Agreement with respect to such Indebtedness, the interest on such Indebtedness shall be calculated as set forth in clause (iv) below;

(iii) with respect to any Credit Facility, (a) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to the reimbursement obligation for such Credit

Facility shall not be included in the Debt Service Requirement and (b) to the extent that such Credit Facility shall have been drawn upon, the payment provisions of such Credit Facility with respect to repayment of principal and interest thereon shall be included in the Debt Service Requirement;

(iv) with respect to Derivative Obligations, the interest on such Indebtedness during any Derivative Period thereunder shall be calculated by adding (a) the amount of interest payable by AMP pursuant to its terms and (b) the amount payable by AMP under the Derivative Agreement and subtracting (c) the amount payable by the Derivative Agreement Counterparty at the rate specified in the Derivative Agreement, except that to the extent that the Derivative Agreement Counterparty has defaulted on its payment obligations under the Derivative Agreement, the amount of interest payable by AMP from the date of default shall be the interest calculated as if such Derivative Agreement had not been executed;

(v) subject to the provisions of clause (iv) above, to the extent that any Indebtedness incurred pursuant to the Master Indenture requires that AMP pay the principal of or interest on such Indebtedness in any currency or currencies other than United States dollars, in calculating the amount of the Debt Service Requirement, the currency or currencies in which AMP is required to pay shall be converted to United States dollars using a conversion rate equal to the applicable conversion rate in effect on a date that is not more than thirty (30) days prior to the date on which such Indebtedness is incurred;

(vi) in the case of Optional Tender Indebtedness, the options of such Owners or Holders shall be ignored, provided that such Optional Tender Indebtedness shall have the benefit of a Credit Facility and the Credit Provider or a guarantor of its obligations shall have ratings from at least two of the Rating Agencies in not less than one of the two highest short-term rating categories (without gradations such as plus or minus); and

(vii) in the case of Indebtedness, having the benefit of a Credit Facility that provides for a term loan facility that requires the payment of the Principal of such Indebtedness in one (1) year or more, such Indebtedness shall be considered Balloon Indebtedness and shall be assumed to have the maturity schedule provided clause (i) of this definition;

provided, however, that (A) interest shall be excluded from the determination of Debt Service Requirement to the extent that provision for payment of the same is made from the proceeds of the Indebtedness or otherwise provided so as to be available for deposit into the Capitalized Interest Account or similar account not later than the date of delivery of and payment for such Indebtedness, (B) all or a portion of interest in respect of one or more Series of Tax-Advantaged Bonds shall be excluded from the determination of Debt Service Requirement if, and to the extent, that Bonds, or the interest thereon, of such Series is payable from Federal Subsidies or credits, and (C) notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Indebtedness shall not include principal and/or interest payable from Qualified Escrow Funds.

“Defeasance Obligations” means, unless modified by the terms of a Supplemental Indenture or a Parity Debt Indenture, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity of custodian, (iii) Defeased Municipal Obligations and (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity of custodian.

“Federal Subsidy” means a payment made by the Secretary of the Department of Treasury to or

for the account of AMP pursuant to the Code in connection with the issuance of a Series of Tax-Advantaged Bonds. Any Federal Subsidy to be received by AMP in connection with the issuance of a Series of Tax-Advantaged Bonds shall be identified as such in the Supplemental Indenture authorizing the issuance of such Series.

“FERC” means the Federal Energy Regulatory Commission and any successor to the functions of FERC created by law.

“Gross Receipts” means all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of AMP for the use of and for the output, services and facilities furnished by or from the Project, including, without limitation, (a) payments made by the Participants to or for the account of AMP pursuant to the Power Sales Contract, (b) proceeds derived from contract rights and other rights and assets now or hereafter owned, held or possessed by AMP and (c) interest or investment income on all investments excluding investments of proceeds of Indebtedness (unless credited and transferred to the Revenue Subfund) incurred by AMP and on deposits to Qualified Escrow Funds.

“Gross Revenues” revenues, as determined in accordance with generally accepted accounting principles, from (i)(a) all payments, proceeds, rates, fees, charges, rents all other income derived by or for AMP for the use of and for the output, services and facilities furnished by or from the Power Sales Contract Resources, and all rights to receive the same, whether in the form of accounts receivable, contract rights, credits or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence, including payments received pursuant to the Power Sales Contract and for capacity, energy and other products of the AMP’s Entitlement and any portion thereof, (b) any proceeds of use and occupancy or business interruption insurance, and (c) the income from the investment under the provisions of the Master Indenture of the moneys held for the credit of the various funds, subfunds, accounts and subaccounts created under the Master Indenture excluding (i) investments of proceeds of Indebtedness (unless credited and transferred to the Revenue Subfund) incurred by AMP and on deposits to Qualified Escrow Funds, (ii) the proceeds of any insurance, other than as mentioned above, (iii) any gifts, grants, donations or contributions or borrowed funds and (iv) Federal Subsidies (to the extent not credited against the Debt Service Requirement).

“Hamilton” means the City of Hamilton, Ohio. References to Hamilton in the Master Indenture are to Hamilton in its capacity as a party to the Meldahl Agreements, not in its capacity as a Participant.

“Incurrence Test” means the test for the incurrence for Parity Obligations established by the Master Trust Indenture and described herein.

“Indebtedness” means (a) Parity Obligations, (b) Subordinate Obligations, (c) the Debt Service Components of the Cost of Contracted Services, (d) all other indebtedness of AMP relating to the Project and payable from Gross Revenues and (e) all installment sales and capital lease obligations relating to the Project, payable from Gross Revenues and incurred or assumed by AMP. Obligations to reimburse Credit Providers for amounts drawn under Credit Facilities to pay the Purchase Price of Optional Tender Indebtedness shall not constitute Indebtedness, except to the extent such obligations exceed the Debt Service Requirements on Bonds or Parity Debt held by or pledged to or for the account of a Credit Provider that shall have paid the Purchase Price of Optional Tender Indebtedness.

“Interest Requirement” for any Fiscal Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding, means the total of the sums that would be deemed to accrue on such Bonds during such Fiscal Year or Interest Period if the interest on the Current Interest Bonds of such Series were deemed to accrue daily in equal amounts during such Year or Interest Period,



employing the applicable methods of calculation set forth in the definition of Debt Service Requirement; provided, however, that interest expense shall be excluded from the determination of Interest Requirement to the extent that any interest is to be paid from the proceeds of Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds or other moneys shall have been invested in Defeasance Obligations and to the extent such earnings may be determined precisely. Interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, to the extent such interest exceeds the interest otherwise payable on such Bonds (herein called “excess interest”), shall not be included in the determination of Interest Requirement. AMP may in a Supplemental Indenture provide that such excess interest be included in the calculation of Interest Requirement for all provisions of the Master Indenture except those relating to the Rate Covenant.

“Investment Obligations” means Government Obligations and, to the extent from time to time permitted by the laws of the State of Ohio,

(A) the obligations of (i) Export Import Bank, (ii) Government National Mortgage Association, (iii) Federal Housing Administration, (iv) U. S. Department of Agriculture – Rural Development, (v) United States Postal Service and (vi) any other agency or instrumentality of the United States of America now or hereafter created, which obligations are backed by the full faith and credit of the United States of America,

(B) the obligations of (i) Federal National Mortgage Association, (ii) Federal Intermediate Credit Banks, (iii) Federal Banks for Cooperatives, (iv) Federal Home Loan Mortgage Corporation; (v) Federal Land Banks, and (vi) Federal Home Loan Banks,

(C) Defeased Municipal Obligations,

(D) negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of least A-1 by S&P and P-1 by Moody’s for maturities of one year or less, and a rating of at least AA by S&P and Aa by Moody’s for maturities over one year and not exceeding five years,

(E) any overnight, term or open repurchase agreement for Government Obligations or obligations described in clauses (A) and (B) above that is with (i) a bank or trust company (including the Trustee, any Depository and their affiliates) that has a combined capital, surplus and undivided profits not less than \$100,000,000, or (ii) a subsidiary trust company whose combined capital, surplus and undivided profits, together with that of its parent state bank or bank, holding company, as the case may be, is not less than \$100,000,000, or (iii) a financial institution (including, but not limited to, banks, insurance companies, investment banks, broker dealers, bank holding companies, insurance holding companies, affiliates of any of the foregoing, and other similar entities) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation (“SIPC”) or with a dealer or parent holding company that is rated in one of the three highest rating categories by Moody’s and S&P (without regard to gradations such as “plus” or “minus”) and as to which the fair market value of such agreements, together with the fair market value of the repurchase agreement securities, exclusive of accrued interest, shall be valued daily and maintained at an amount at least equal to the amount invested in the repurchase agreements, provided, however, that (1) such obligations purchased must be transferred to the Trustee or Depository (who shall not be the provider of the collateral) or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations, (2) as to which failure to maintain the requisite collateral levels will require the Trustee or Depository, as the case may be, or its agent to liquidate the securities immediately, (3) as to which the Trustee or Depository, as the case may be, has a perfected, first priority security interest in the securities, and (4) as to which the securities are free and clear of third-party liens, and in the case of an

SIPC broker, were not acquired pursuant to a repurchase or reverse repurchase agreement,

(F) any investment agreement that is with or is unconditionally guaranteed as to payment by (i) a bank or trust company (including the Trustee, any Depository and their affiliates) that has a combined capital, surplus and undivided profits not less than \$100,000,000, or (ii) a subsidiary trust company whose combined capital, surplus and undivided profits, together with that of its parent state bank or bank, holding company, as the case may be, is not less than \$100,000,000, or (iii) a financial institution (including, but not limited to, banks, insurance companies, investment banks, broker dealers, bank holding companies, insurance holding companies, affiliates of any of the foregoing, and other similar entities) that, in the case of (i), (ii) or (iii), is rated in one of the two highest rating categories by Moody's and S&P (without regard to gradations such as "plus" or "minus"),

(G) commercial paper rated at the time of acquisition by the Trustee or a Depository in the highest rating category by Moody's and S&P (without regard to any gradations or refinements such as "plus" or "minus"),

(H) obligations of state or local government municipal bond issuers, the principal of and interest on which, when due and payable, have been insured to their maturities by an insurer the bonds insured by which are rated at the time of acquisition by the Trustee or a Depository by Moody's and S&P in one of the two highest rating categories (without regard to any numerical or other gradations or refinements such as "plus" or "minus"),

(I) obligations of state or local government municipal bond issuers that are rated by Moody's and S&P in one of the two highest rating categories (without regard to any numerical or other gradations or refinements such as "plus" or "minus"),

(J) open-end investment funds registered under the Investment Companies Act of 1940, as amended, the authorized investments by which are permitted by the terms of the Master Indenture. Any investment in a repurchase agreement shall be considered to mature on the date the party providing the repurchase agreement is obligated to repurchase the Investment Obligations. Any investment in obligations described above may be made in the form of an entry made on the records of the issuer of or the securities depository with respect to the particular obligation, and

(K) bankers' acceptances drawn on and accepted by commercial banks (which may include the Trustee, any Co-Trustee, any Depository, any Bond Registrar and their affiliates).

"Maximum Annual Debt Service Requirement" means at the date of calculation the greatest Debt Service Requirement for the current or any succeeding Fiscal Year.

"Meldahl Agreements" means (i) the Meldahl – Greenup Participation Agreement, dated as of March 1, 2009, between Hamilton, Meldahl, LLC and AMP, (ii) the Meldahl Project Development and Agency Agreement, dated March 1, 2009, between Hamilton, Meldahl, LLC and AMP, (iii) the Meldahl Project Operating Agreement, dated as of March 1, 2009, between Hamilton and AMP, (iv) the Meldahl, LLC Operating Agreement, dated as of March 1, 2009, between Hamilton, AMP and Meldahl, LLC and (v) the Meldahl Purchase, Construction and Ownership Agreement, dated as of March 1, 2009, between AMP and Meldahl, LLC, all as the same may be amended from time to time.

"Meldahl Operating Agreement" means the Meldahl Project Operating Agreement, dated as of March 1, 2009, between Hamilton and AMP, as the same may be amended from time to time.

"Optional Tender Indebtedness" means any portion of Indebtedness incurred under the Master

Indenture a feature of which is an option on the part of the holders of such Indebtedness to tender to AMP or the Trustee or a Depository, Paying Agent or other fiduciary for such holders, or an agent of any of the foregoing, all or a portion of such Indebtedness for payment or purchase.

“Parity Common Reserve Account Requirement” means, with respect to all Parity Obligations secured by the Parity Common Reserve Account, the amount provided in a Supplemental Indenture. The Parity Common Reserve Account Requirement may be satisfied with cash, Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing, as AMP may determine from time to time.

“Parity Debt” means all Parity Obligations incurred or assumed by AMP, including Parity Debt Service Components, and not evidenced by Bonds which (a) are designated as Parity Debt in the documents pursuant to which it was incurred, (b) are incurred in compliance with the provisions of the Master Indenture or are a reimbursement obligation for a Credit Facility supporting Parity Obligations incurred in compliance with the provisions of the Master Indenture, and (c) may be accelerated only in compliance with the procedures set forth in the Master Indenture.

“Parity Obligations” means Bonds and Parity Debt.

“Principal Requirement” for any Fiscal Year or any other period, as the context may require, as applied to Bonds of any Series then Outstanding, means the total of the sums that would be deemed to accrue on such Bonds during such Fiscal Year or other period if the principal of the Current Interest Bonds of such Series were deemed to accrue daily in equal amounts during such Year or period, employing the applicable methods of calculation set forth in the definition of Debt Service Requirement; provided, however, that principal shall be excluded from the determination of Principal Requirement to the extent that any principal is to be paid from the proceeds of Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds or other moneys shall have been invested in Defeasance Obligations and to the extent such earnings may be determined precisely.

“Related Agreement” means any agreements for interconnection of any of the facilities comprising the Project to the transmission grid, including any agreements for transmission service, including supplemental transmission service, and the interconnection agreement for the interconnection of any of the facilities comprising the Project to the PJM RTO or MISO RTO transmission systems, any agreements with the U.S. Army Corps of Engineers relating to the Project, other agreements for transmission service to enable AMP to meet its obligations to deliver or make available electric capacity and energy for the Participants pursuant to the Power Sales Contract, any agreement entered into pursuant to Section 35 of the Power Sales Contract and any agreements for coordination of operations with other hydroelectric Project all as the same may be amended from time to time.

“Reserve Alternative Instrument” means an irrevocable insurance policy or surety bond or an irrevocable letter of credit, guaranty or other facility deposited in the Parity Common Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Parity Common Reserve Account Requirement or a Special Reserve Account Requirement.

“Revenue Available For Debt Service” means the pro forma amount, indicated in an Officer’s Certificate delivered to the Trustee, that is certified by such Officer to be a good faith estimate of the excess, of the Gross Revenues in any 12 consecutive months of the last 18 calendar months preceding the date of such Certificate over the AMP Operating Expenses for the same 12 months, taking into consideration and adjusted for any rate increases adopted by the Board of AMP that will take effect subsequent to the applicable 12-month period and in the current or following Fiscal Year, as shall be set

forth in such Officer's Certificate.

"Short-Term Indebtedness" means all Indebtedness incurred for borrowed money, other than the current portion of Indebtedness and other than Short-Term Indebtedness excluded from this definition as provided in the definition of Indebtedness, for any of the following:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;
- (ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and
- (iii) installment sale or conditional sale contracts having an original term of one year or less.

"Special Reserve Account" means a special debt service reserve account created by a Supplemental Indenture or a Parity Debt Indenture as a debt service reserve account only for the particular Parity Obligations authorized by such Supplemental Indenture or Parity Debt Indenture.

"Special Reserve Account Requirement" means the amount to be deposited or maintained in a Special Reserve Account pursuant to a Supplemental Indenture or a Parity Debt Indenture creating such Special Reserve Account. The Special Reserve Account Requirement may be satisfied with cash, Investment Obligations, a Reserve Alternative Instrument or any combination of the foregoing, as **AMP** may determine from time to time.

"Subordinate Obligations" means Indebtedness and other payment obligations the terms of which shall provide that they shall be subordinate and junior in right of payment, or provision for payment, to the prior payment in full of Parity Obligations to the extent and in the manner set forth in the Master Indenture.

"Subordinate Obligations Indenture" means the resolution and any other documents, instruments or agreements adopted or executed by AMP providing for the incurrence of Subordinate Obligations. If the Subordinate Obligations shall have the benefit of a Credit Facility, the reimbursement obligation for such Credit Facility shall provide for repayments on a subordinated basis (as compared to Parity Obligations) and the term Subordinate Obligations Indenture shall include any reimbursement agreement or similar repayment agreement executed and delivered by AMP in connection with the provision of such Credit Facility for such Subordinate Obligations.

"Tax-Advantaged Bonds" means all Bonds so identified in the Supplemental Indenture authorizing the issuance of such Bonds.

"Tax-Advantaged Parity Debt" means all Parity Debt so identified in the Parity Debt Indenture authorizing the incurrence of such Parity Debt.

"Tax-Advantaged Parity Obligations" means collectively all Tax-Advantaged Bonds and all Tax-Advantaged Parity Debt.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate until maturity.

## **Construction Subfund**

Any money received by AMP from any source for the Cost of the Project shall be deposited in the Construction Subfund, a special subfund of the Meldahl Project Fund. Moneys in the Construction Subfund shall be held by a Depository or Depositories in trust and applied to the payment of the Cost of the Project or to the retirement of Bonds issued under the provisions of the Master Indenture or Parity Debt. Pending such application, such moneys shall be subject to a lien in charge of the Holders.

The Depository or Depositories may only disburse moneys from the Construction Subfund upon the receipt of a requisition signed by an AMP Representative, stating to whom the payment is to be made, the general purpose for which the obligation was incurred and that each charge is a proper charge against the Cost of the Project and, if the payment is not made to someone other than AMP, the obligation has not been the basis for a prior requisition.

Upon the completion of the Project, AMP shall deliver to the Depository or Depositories a certificate of an AMP Representative, approved by the Board of AMP by appropriate resolution, setting forth (A) setting forth the Commercial Operation Date, or if the Construction Subfund is no longer required stating that such balance is no longer required and the reason therefor in reasonable detail and (B) stating that requisitions have been made for the payment of all obligations which are payable from the Construction Subfund or such account or subaccount, to the appropriate Depository together with an Opinion of Counsel to the effect that there are no mechanics', workmen's, repairmen's, architects', engineers', surveyors', carriers', laborers', contractors' or materialmen's liens on any property constituting a part of the Project on file in any public office where the same should be filed in order to be perfected liens against the Project or any part thereof and that the time within which such liens can be filed has expired. As soon as practicable after such certification is delivered by AMP to the Depository or Depositories, the balance of the Construction Subfund not reserved by AMP to payment of any remaining Cost of the Project, shall be transferred, as directed by AMP, (i) to the Renewal and Replacement Account of the Reserve and Contingency Subfund, or (ii) to the Bond Subfund for the payment, purchase or redemption of Bonds in accordance with the provisions of the Master Indenture. If the balance in such Subfund, account or subaccount is proceeds of a Tax-Advantaged Bonds, or investment income allocable thereto, such direction of AMP shall be accompanied by an Opinion of Counsel nationally recognized as expert in tax matters relating to obligations of states and their political subdivisions to the effect that such proposed application of such balance will not adversely affect the exclusion from gross income for federal income tax purposes of interest or receipt of the Federal Subsidy, as applicable, on any or all of the outstanding Tax-Advantaged Bonds.

## **Establishment of Meldahl Project Fund and Other Subfunds; Application of Gross Receipts and Net Revenues**

*Creation of Meldahl Project Fund, Subfunds and Accounts.* AMP shall create on its books a special fund to be known as the "American Municipal Power, Inc. Meldahl Hydroelectric Project Fund" (the "Meldahl Hydroelectric Project Fund" or "Meldahl Project Fund"). In addition to the Construction Subfund, the following subfunds and accounts are established in the Meldahl Project Fund:

- (i) with a Depository, the Costs of Issuance Subfund, in which there shall be established for each Series of Bonds a special account identified by such Series; and
- (ii) with a Depository, the Revenue Subfund, in which there are established four special accounts to be known as the Operating Account, the Working Capital Account, the Derivative Receipts Account and the General Account; and

(iii) with the Trustee, the Bond Subfund, in which there are established seven or more special accounts to be known as the Capitalized Interest Account, the Interest Account, the Derivatives Payments Account, the Principal Account, the Sinking Account, the Redemption Account, the Parity Common Reserve Account and any Special Reserve Accounts identified by Series or otherwise; and

(iv) with a Depository, the Subordinate Obligations Subfund, in which AMP may create one or more accounts by one or more Subordinate Obligations Indentures; and

(v) with a Depository, a Reserve and Contingency Subfund, in which there are hereby established six special accounts to be known as the Renewal and Replacement Account, the Overhaul Account, the Capital Improvement Account, the Rate Stabilization Account, the Environmental Improvement Account and the Self-Insurance Account; and

(vi) with a Depository, a General Subfund.

Money in the Bond Subfund and all of the accounts and subaccounts therein established shall be held in trust and applied as provided in the Master Indenture. Pending such application, such money shall be subject to a pledge, charge and lien in favor of the Owners of the respective Series of Bonds issued and Outstanding under the Master Indenture.

Each Supplemental Indenture providing for the issuance of a Series of Tax-Advantaged Bonds the issuance of which will entitle AMP to receive a Federal Subsidy shall identify the Federal Subsidy and may provide that such Series of Tax-Advantaged Bonds shall be additionally secured by the Federal Subsidy identified therein.

#### *Application of Moneys Received*

Except as provided in a Parity Debt Indenture, all Gross Receipts received by AMP or the Trustee for the account of AMP shall be deposited in the Revenue Subfund. Proceeds of any Derivative Agreement shall be deposited to the credit of the Derivative Receipts Account in the Revenue Subfund.

Not less than monthly, on or before the last Business Day of each month and on such other Deposit Day as may be required for all Bonds Outstanding, the Depository of the Revenue Subfund shall withdraw from the Revenue Subfund any legally available moneys then held to the credit of such Subfund and set aside or transfer any moneys so withdrawn to the Trustee or a Depository or otherwise dispose of such moneys for the following purposes in the following order in amounts sufficient in the aggregate to satisfy the following requirements, subject to credits as provided in the Master Indenture:

(i) transfer to the Depository for the Operating Account an amount that together with funds then held to the credit of such account will make the total amount then to the credit of such subaccount equal to the sum of the AMP Operating Expenses budgeted for such month in the Annual Budget;

(ii) transfer to the Depository for the Working Capital Account an amount that together with funds then held to the credit of such account will make the total amount then to the credit of such account equal to ten percent (10%) the amount of the AMP Operating Expenses provided for the current Fiscal Year in the Annual Budget;

(iii) pay to the Trustee for deposit into the Bond Subfund, the sum of

(1) to the credit of the Interest Account, after first taking into account any accrued interest deposited from the proceeds of any Bonds and the advice of AMP contained in an

Officer's Certificate respecting any transfers from Capitalized Interest Account and, subject to the requirements of the Master Indenture, from the Construction Subfund by deducting the sum of such amounts from the amount of interest otherwise payable, such amount of such amount as is required to make the amount to the credit of the Interest Account equal to so much of the Interest Requirement that shall have accrued during the then current Interest Period between the first Deposit Day in such Period and such Deposit Day; provided, however, that except as specified above, the amount so deposited on account of the then current Interest Requirement on each Deposit Day after the delivery of the Bonds of any Series under the provisions of the Master Indenture up to and including the Deposit Day immediately preceding the first Interest Payment Date thereafter of the Bonds of such Series shall be that amount which when multiplied by the number of such deposits will be equal to the amount of such current Interest Requirement respecting such Bonds during such first Interest Period; and provided, further, that in making such deposits, the Trustee shall take into account any excess moneys to the credit of the Parity Common Reserve Account and any Special Reserve Account that are to be transferred to the Interest Account or any subaccount thereof prior to any Interest Payment Date, should moneys held therein exceed the Parity Common Reserve Account Requirement and/or Special Reserve Account Requirement, as applicable,

(2) to the credit of the Derivatives Payments Account, the amount, if any, of any Derivative Obligations due under the terms of a Derivative Agreement to be paid to a Derivative Agreement Counterparty, on a parity with interest on Bonds, prior to the next Deposit Day,

(3) to credit of the Principal Account, beginning on the Deposit Day specified in the applicable Supplemental Indenture that is prior to the first month in which any Serial Bond matures, such amount as is required to make the amount to the credit of the Principal Account equal to so much of the Principal Requirement that shall have accrued during the then current period between the date specified in the Supplemental Indenture or the prior Principal Payment Date and such Deposit Day or the next Principal Payment Date if it shall occur before the next scheduled Deposit Day,

(4) to credit of the Sinking Fund Account, beginning on the Deposit Day specified in the applicable Supplemental Indenture that is prior to the first month in which any Term Bond matures, such amount as is required to make the amount to the credit of the Sinking Fund Account equal to so much of the Sinking Fund Requirement that shall have accrued during the then current period between the date specified in the Supplemental Indenture or the prior Principal Payment Date and such Deposit Day or the next mandatory Sinking Fund redemption date if it shall occur before the next scheduled Deposit Day, and

(5) at such time or times as provided in a Supplemental Indenture or a Parity Debt Indenture, (I) to the credit of the Parity Common Reserve Account, if the amount in the Parity Common Reserve Account is less than the Parity Common Reserve Account Requirement, the amounts required by the Master Indenture to make up such deficiency in the Parity Common Reserve Account plus any other amounts required to reinstate fully any Reserve Alternative Instrument then held to the credit of the Parity Common Reserve Account and (II) to the credit of any Special Reserve Account, if the amount in any Special Reserve Account is less than the applicable Special Reserve Account Requirement, and deposit, or deliver to the appropriate Depository for deposit, the amounts required by any Supplemental Indenture or Parity Debt Indenture to make up any deficiency in any Special Reserve Account, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits, such deposits shall be made among the Parity Common Reserve Account and each Special Reserve Account ratably according to the amounts so required to be deposited.

(iv) set aside with a Depository for deposit into the Subordinate Obligations Subfund, an amount which together with funds then held to the credit of the Subordinate Obligations Subfund will make the total amount then to the credit of the Subordinate Obligations Subfund equal to the entire aggregate amount of Subordinate Obligations; and

(v) pay to a Depository for deposit into the various accounts in the Reserve and Contingency Subfund, the amounts, if any, provided in the Annual Budget.

The balance, if any, remaining after making the transfers provided in clauses (i), (ii), (iii), (iv) and (v) above, shall be credited to the General Account in the Revenue Subfund.

If any Series of Bonds is secured by a Credit Facility, the Trustee shall establish a separate subaccount within the Interest Account, the Principal Account and the Sinking Fund Account corresponding to the source of moneys for each deposit made into either of such accounts so that the Trustee may at all times ascertain the source and date of deposit of the funds in each such account or subaccount.

If a Series of Tax-Advantaged Bonds, or the interest thereon, is payable from or secured by a Federal Subsidy, the Trustee shall, as directed by AMP Representative, credit such Federal Subsidy to the subaccount, established for such Series of Bonds, within the Interest or Principal Account as so directed.

#### *Use of Money Held in Certain Accounts in the Revenue Subfund*

Operating Account. AMP may withdraw to the credit of the Operating Account, in the event funds to the credit thereof are insufficient, first from the Working Capital Account and then from the Rate Stabilization Account to pay AMP Operating Expenses as the same come due and payable.

Working Capital Account. Amounts on deposit in the Working Capital Account shall be available to pay AMP Operating Expenses. To the extent moneys held in the Bond Subfund or Subordinate Obligations Subfund and the General Account and the Reserve and Contingency Subfund are insufficient to make required interest and principal payments, moneys in the Working Capital Account shall be used prior to any withdrawal from the Parity Common Reserve Account or Special Account Reserve, if any, to satisfy any deficiency.

General Account. Moneys credited to the General Account may be used by AMP for any lawful purpose related to the Project, including the transfer to any Subfund. To the extent moneys held in the Bond Subfund or Subordinate Obligations Subfund are insufficient to make required interest and principal payments, moneys in the General Account shall be used prior to any withdrawal from the Reserve and Contingency Subfund, Working Capital Account, Parity Common Reserve Account or Special Account Reserve, if any, to satisfy any deficiency.

#### *Deposit and Application of Money in the Parity Common Reserve Account and Any Special Reserve Account; Replenishment of Deficiencies*

(a) If a Supplemental Indenture or a Parity Debt Indenture provides that the Parity Obligations issued or incurred thereunder are to be additionally secured by the Parity Common Reserve Account, AMP shall deposit, from the proceeds of such Parity Obligations or from any other available sources, concurrently with the delivery of and payment for such Parity Obligations, to the Parity Common Reserve Account such amount as is required to make the balance to the credit of such Account equal to the Parity Common Reserve Account Requirement. If a Supplemental Indenture or a Parity Debt Indenture provides that the Parity Obligations issued thereunder are to be secured by a Special Reserve Account,



AMP shall fund, from the proceeds of such Parity Obligations or from any other available sources, at the time or times and in the manner specified in the applicable Supplemental Indenture or Parity Debt Indenture, such Special Reserve Account in an amount equal to the Special Reserve Account Requirement for such Parity Obligations.

(b) Unless the applicable Supplemental Indenture or a Parity Debt Indenture shall otherwise provide or modify the following, AMP may deposit with the Trustee a Reserve Alternative Instrument in satisfaction of all or any portion of the Parity Common Reserve Account Requirement or may substitute a Reserve Alternative Instrument for all or any portion of the cash or another Reserve Alternative Instrument credited to the Parity Common Reserve Account, provided that the following minimum provisions have been fulfilled:

(i) The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Account, or in an account for the payment of interest, or in an account or accounts for the payment of principal, in order to provide for the timely payment of the principal (whether at maturity or pursuant to a Sinking Fund Requirement or an amortization requirement therefor) of and interest on the Parity Obligations secured thereby.

(ii) The provider of a Reserve Alternative Instrument shall be (A) an insurance company or other financial institution that has been assigned, for obligations insured by the provider of the Reserve Alternative Instrument, a rating by at least two Rating Agencies in one of the two highest rating categories (without regard to gradations by numerical modifier or otherwise) or (B) a commercial bank, insurance company or other financial institution the obligations payable or guaranteed by which have been assigned a rating by at least two Rating Agencies in one of the two highest rating categories (without regard to gradations by numerical modifier or otherwise). Unless otherwise provided in a Supplemental Indenture, the subsequent withdrawal or reduction in the rating of such provider of a Reserve Alternative Instrument or its guarantor subsequent to the deposit or substitution for cash of a Reserve Alternative Instrument shall not ipso facto disqualify such Reserve Alternative Instrument as a qualifying Reserve Alternative Instrument.

(iii) If the Reserve Alternative Instrument is an unconditional irrevocable letter of credit issued to the Trustee, the letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Parity Obligations having the benefit of the Parity Common Reserve Account. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify AMP and the Trustee, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date. The Trustee is directed to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Parity Common Reserve Account is fully funded to the Parity Common Reserve Account Requirement.

(iv) The Trustee shall ascertain the necessity for a claim or draw upon the Reserve Alternative Instrument and shall provide notice to the issuer of the Reserve Alternative Instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Alternative Instrument ) prior to each Interest Payment Date.

(v) Except as otherwise provided in a Supplemental Indenture or Parity Debt Indenture, cash on deposit in the Parity Common Reserve Account shall be used (or Investment Obligations purchased with such cash shall be liquidated and the proceeds applied as required) *pro rata* with any drawing on any Reserve Alternative Instrument. If and to the extent that more than one Reserve Alternative Instrument is deposited in the Parity Common Reserve Account, drawings thereunder and repayments of costs associated therewith shall be made on a *pro rata* basis, calculated by reference to the maximum amounts available thereunder and the total amount then required to be to the credit of the Parity Common Reserve Account.

(c) The Trustee shall use amounts in the Parity Common Reserve Account to make transfers, or use moneys provided under a Reserve Alternative Instrument to make deposits, in the following order, in respect of all Parity Obligations additionally secured by the Parity Common Reserve Account, to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Account to remedy any deficiency therein as of any Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date as set forth in a Parity Debt Indenture), or to pay the interest on or the principal of or amortization requirements in respect of any Parity Debt when due, whenever and to the extent the money on deposit for such purposes is insufficient.

(d) The Trustee shall use amounts in any Special Reserve Account held by it to make transfers, or use moneys provided under a Reserve Alternative Instrument to make deposits, in the following order, in respect of the particular Parity Obligations secured by such Special Reserve Account, to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Account to remedy any deficiency therein as of any Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date as set forth in a Supplemental Indenture or a Parity Debt Indenture) or to pay the interest on or the principal of or amortization requirement in respect thereof on Parity Debt when due, whenever and to the extent the money on deposit for such purposes is insufficient.

(e) Any deficiency in the Parity Common Reserve Account resulting from the withdrawal of moneys therein shall be made up by depositing to the credit of such Account the amount of such deficiency within one year following the date on which such withdrawal is made. Any deficiency in the Parity Common Reserve Account resulting from a draw on a Reserve Alternative Instrument shall be made up as provided in such Reserve Alternative Instrument or documentation relating thereto, but any such deficiency must be made up by not later than the final date when such deficiency would have been required to be made up if there had been a withdrawal of moneys from the Parity Common Reserve Account rather than a draw on a Reserve Alternative Instrument. Deficiencies, whether resulting from withdrawals or draws, may be satisfied through the deposit of additional cash, the delivery of an additional Reserve Alternative Instrument or an increase in the amount available to be drawn under a Reserve Alternative Instrument. Unless otherwise provided in a Supplemental Trust Indenture or a Parity Debt Indenture, cash or Investment Obligations on deposit to the credit of the Parity Common Reserve Account shall be used *pro rata* with draws on any Reserve Alternative Instrument to satisfy deficiencies, as provided above.

(f) Unless a Reserve Alternative Instrument shall be in effect, if on any date of valuation, the amount on deposit in the Parity Common Reserve Account is less than ninety percent (90%) of the Parity Common Reserve Account Requirement, AMP shall deposit into the Parity Common Reserve Account within one year following such date the amount required as of such date to cause the amount then on deposit in the Parity Common Reserve Account to be equal to the Parity Common Reserve Account Requirement. Any such deficiency may be satisfied through the deposit of additional cash, the delivery of an additional Reserve Alternative Instrument or an increase in the amount available to be drawn under a Reserve Alternative Instrument.

(g) Any deficiency in a Special Reserve Account resulting from the withdrawal of moneys therein or a draw on a Reserve Alternative Instrument or resulting from a valuation of the Investment Obligations therein shall be made up as provided in the Supplemental Indenture or the Parity Debt Indenture establishing such Special Reserve Account. The Supplemental Indenture or Parity Debt Indenture providing for the deposit of or the substitution in lieu of cash of a Reserve Alternative Instrument may provide that AMP may be required to post collateral or deposit cash or obtain a substitute Reserve Alternative Instrument in the event that the provider of the Reserve Alternative Instrument is downgraded or its rating is withdrawn or suspended with the result that the Reserve Alternative Instrument no longer meets all of the rating criteria set forth in (b)(ii) above.

(h) If at any time, the amount of moneys held for the credit of the Parity Common Reserve Account or any Special Reserve Account shall exceed the amount then required to be on deposit to the credit of such Account, the excess may be withdrawn and transferred as directed by AMP in accordance with any Supplemental Indenture and any Parity Debt Indenture.

*Application of Money in the Redemption Account.* Subject to the terms and priorities established in the Master Indenture, the Trustee shall apply money in the Redemption Account to the purchase or redemption of Bonds.

*Application of Moneys in the Reserve and Contingency Subfund.* Moneys held in the various Accounts of the Reserve and Contingency Subfund may be disbursed by AMP as follows: (a) money held in the Overhaul Account may be used to pay the costs of unusual or extraordinary (as determined by AMP) repairs or maintenance, not occurring annually; (b) money held in the Renewal and Replacement Account may be used to pay the costs of renewals, replacements and repairs to the Project resulting from any emergency, engineering and architectural fees and premiums on insurance carried under the terms of the Master Indenture; (c) money in the Capital Improvement Account may be used for paying the costs of fixtures, machinery, equipment, furniture, real property and additions to, or improvements, extensions or enlargements of, the Project; (d) money held in the Rate Stabilization Account may be, at AMP's direction, transferred to any other account or subfund, including the payment of interest, principal or redemption of Indebtedness; (e) money held in the Environmental Improvements Account may be used for the mitigation of environmental impacts of the Project, including, but not limited to, any mitigation actions required as a condition of the licenses issued by FERC to operate the Project; and (f) moneys held in the Self-Insurance Account may be used to pay for losses, liabilities or other purposes for which insurance proceeds, net of the applicable deductible, have been received or for losses, liabilities including reimbursement obligations or other purposes for which AMP was self-insured or uninsured or obligated for reimbursement on letters of credit or performance or surety bonds or the like.

## **Depositories and Investment of Funds**

*Security for Deposits.* All money received by AMP pursuant to the provisions of the Master Indenture shall be deposited with the Trustee or one or more Depositories and, in the case of deposits with the Trustee, be trust funds under the Master Indenture, and shall not be subject to the lien of any creditor of AMP.

All money deposited with and held by the Trustee or any Depository in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured, for the benefit of AMP and the Owners, either (a) by lodging with a bank or trust company chosen by the Trustee or Depository or, if then permitted by law, by setting aside under control of the trust department of the bank or trust company holding such deposit, as collateral security, Government Obligations or other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States or applicable state law or regulations,

having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (b) if the furnishing of security as provided in clause (a) above is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee or any Depository to give security for the deposit of any money with it for the payment of the principal of or the redemption premium, if any, or the interest on any Parity Obligations or Subordinate Obligations, or for the Trustee or any Depository to give security for any money that shall be represented by Investment Obligations purchased under the provisions of this Article as an investment of such money.

*Investment of Money.* Money held for the credit of all funds, accounts and subaccounts established under the Master Indenture and held by the Trustee shall, in accordance with the written directions of AMP, be continuously invested and reinvested by the Trustee or the Depositories, whichever is applicable, in Investment Obligations to the extent practicable.

No Investment Obligations pertaining to any Series of Bonds in any fund, account or subaccount held by the Trustee or any Depository shall mature on a date beyond the latest maturity date of the Bonds of such Series Outstanding at the time such Investment Obligations are deposited.

AMP shall either enter into agreements with the Trustee or any Depository for the investment of any money required or permitted to be invested under the Master Indenture or give the Trustee or any Depository written directions respecting the investment of such money, subject, however, to the provisions of the Master Indenture, and the Trustee or such Depository shall then invest such money in accordance with such agreements or directions.

Except as provided in the Master Indenture with respect to the Parity Common Reserve Account, Investment Obligations shall mature or be redeemable at the option of the holder thereof not later than the respective dates when the money held for the credit of such funds, accounts and subaccounts will be required for the purposes intended.

Investment Obligations in the Parity Common Reserve Account shall mature or be redeemable at the option of the Trustee not later than the final maturity date of the Parity Obligations to which such Parity Common Reserve Account is pledged.

Money held for the credit of all funds, accounts and subaccounts established under the Master Indenture and held by the Trustee shall, in accordance with the written directions of AMP, be continuously invested and reinvested by the Trustee or the Depositories, whichever is applicable, in Investment Obligations to the extent practicable. Except as provided in the Master Indenture with respect to the disposition of investment income, the particular investments to be made and other related matters in respect of investments shall, as to each Series of Bonds, be provided in the Supplemental Indenture authorizing the issuance of such Series of Bonds.

*Valuation.* For the purpose of determining the amount on deposit in any fund, account or subaccount established under the Master Indenture, Investment Obligations in which money in such fund, account or subaccount is invested shall, so long as no Event of Default shall have occurred and continue, be valued at Amortized Cost. During the pendency of any Event of Default, Investment Obligations in which money in such fund, account or subaccount is invested shall be valued at the lower of Amortized Cost or market.

All Investment Obligations in all of the subfunds, accounts and subaccounts established under the Master Indenture shall be valued as of the Business Day immediately preceding each Principal Payment

Date and, at the written request of an AMP Representative, each or any Interest Payment Date.

### **Certain Covenants of AMP**

*Covenants to Construct and Maintain the Project.* AMP will cause the Project to be constructed substantially as contemplated by the Master Indenture, the Power Sales Contract, the Meldahl Agreements, the Project License and, except in limited circumstances and only upon the receipt of a report of the Consulting Engineer that ceasing construction would not adversely affect the holders, to proceed with due diligence to complete the Project. AMP will In addition, AMP covenants to operate and maintain the Project in an efficient and economical manner and in accordance with all applicable laws, regulations or orders of any governmental body with jurisdiction over the Project.

*Insurance.* Consistent with and subject to the terms of the Meldahl Agreements, AMP covenants that it maintain, or cause to be maintained, a practical insurance program, with reasonable terms, conditions, provisions and costs, which AMP determines (i) will afford adequate protection against loss caused by damage to or destruction of the Project or any part thereof and (ii) will include reasonable liability insurance on all of the Project for bodily injury and property damage resulting from the construction or operation of the Project.

AMP further covenants that, immediately after any substantial damage to or destruction of the Project or any part thereof, it will cause plans and specifications for repairing, replacing or reconstructing the damaged or destroyed property (either in accordance with the original or a different design) and an estimate of the cost thereof to be prepared and that the proceeds of all insurance received in the circumstances described in the in this sentence shall be paid to a Depository and made available for, and shall to the extent necessary be applied to, the repair, replacement or reconstruction of the damaged or destroyed property, and such disbursements by the Depository for such purposes shall be made in accordance with the provisions of the Master Indenture for payments from the Construction Subfund to the extent that such provisions may be applicable.

*Incurrence Tests.* Following the date that is two years after the Commercial Operation Date, additional Parity Obligations may be issued or incurred only in compliance with the Incurrence Tests set forth in (a) and (b), subject to the issuance of Parity Obligations issued pursuant to (c) below:

(a) AMP may issue or incur Parity Obligations at one time or from time to time in any form or combination of forms permitted by the Master Indenture for the purpose of providing funds, with any other available funds, to pay the additional Costs of the Project if, prior to the issuance or incurrence of such Parity Obligations, AMP shall file or cause to be filed with the Trustee an Officer's Certificate (which may rely upon certificates or other documentation delivered by an Independent Consultant) certifying that, for each Fiscal Year thereafter for which sufficient proceeds of the Parity Obligations and other available funds have not been set aside with the Trustee to pay the interest due in such Fiscal Year, in the signer's good faith estimation, (i) the Debt Service Coverage Ratio will be not less than 1.10x Maximum Annual Debt Service Requirement for all of the Parity Obligations, including the proposed additional Parity Obligations, that will be Outstanding immediately following the issuance of such proposed Parity Obligations and (ii) the Debt Service Coverage Ratio is not less than 1.00x of the Maximum Annual Debt Service Requirement for all of the Indebtedness, including the proposed additional Parity Obligations, that will be Outstanding immediately following the issuance of such proposed Parity Obligations.

(b) AMP may incur Parity Obligations for the purpose of refunding or reissuing any Outstanding Indebtedness if, prior to the incurrence of such Parity Obligations, either (i) the Trustee receives from AMP an Officer's Certificate (which may rely upon certificates or other documentation

delivered by an Independent Consultant) stating that, taking into account the Parity Obligations proposed to be incurred, the Parity Obligations to remain Outstanding after the refunding and the refunding of the Outstanding Indebtedness proposed to be refunded, the Maximum Debt Service Requirement will not be increased by more than five percent (5%), or (ii) AMP files or causes to be filed with the Trustee an Officer's Certificate (which may rely upon certificates or other documentation delivered by an Independent Consultant) certifying that, in the signer's good faith estimation, the Debt Service Coverage Ratio for each Fiscal Year thereafter for which sufficient proceeds of the Parity Obligations and other available funds have not been set aside with the Trustee to pay the interest due in such Fiscal Year, taking into account the Parity Obligations proposed to be incurred, the refunding of the Outstanding Indebtedness proposed to be refunded and the Parity Obligations to remain Outstanding after the refunding, will be not less than 1.10x, and (iii) the Trustee receives a report by an Independent Consultant verifying the computations supporting the determination in (i) or (ii) above.

(c) In the event of damage or destruction to the Project that materially adversely affects its generating capability and for which insurance proceeds are inadequate to pay the cost of repairs or for which AMP does not expect to receive adequate insurance proceeds in a timely manner to expedite the necessary repairs or reconstruction, AMP may issue or incur Parity Obligations for the sole purpose of paying the cost of repairs required for AMP to return such Project to Commercial Operation ("Emergency Bonds"); provided that the issuance of any such Emergency Bonds shall be contingent on the receipt by the Trustee of a favorable report of the Consulting Engineer to the effect that the net proceeds of the Emergency Bonds then to be issued and any other available funds of AMP paid into the Construction Subfund for the purpose shall be sufficient for AMP to pay the balance of the cost, as estimated by the Consulting Engineer, of the repairs required for AMP to return such Project to Commercial Operation.

(c) For purposes of demonstrating compliance with the Incurrence Tests set forth in paragraphs (a) or (b), AMP may (but is not required to) elect in the applicable Supplemental Indenture to treat all Parity Obligations authorized in a Credit Facility (including, for example and without limitation, a line of credit or a liquidity facility supporting a commercial paper program), but not immediately issued or incurred under such Credit Facility, as subject to such Incurrence Tests as of a single date, notwithstanding that none, or less than all, of the authorized principal amount of such Parity Obligations shall have been issued or incurred as of such date.

(d) Short-Term Indebtedness may be incurred under the Master Indebtedness as a Parity Obligation only in compliance with the Incurrence Tests. In addition, AMP may incur Short-Term Indebtedness as Subordinate Obligations under the Master Indenture.

(e) Notwithstanding the foregoing provisions, nothing contained in the Master Indenture shall preclude AMP from incurring any obligation under a Credit Facility.

(f) Notwithstanding the foregoing provisions, nothing contained in the Master Indenture shall preclude AMP from entering into a Derivative Agreement either in connection with Indebtedness or otherwise.

*Rate Covenant.* AMP covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Project and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues will be sufficient to provide an amount in each Fiscal Year at least equal to greater of (A) one hundred ten per centum (110%) of the Debt Service Requirements for such Fiscal Year on account of all the Bonds and Parity Debt then outstanding and (B) one hundred per centum (100%) of the sum of the Debt Service Requirements for such Fiscal Year on account of all Bonds and Parity Debt then outstanding and the amount required to make all other deposits required by the Master Indenture and to pay all other

obligations of AMP related to the Project, including Subordinate Obligations, as the same become due.

AMP further covenants that if the moneys available for the payment of the sum of the amounts set forth in the preceding paragraph shall not equal or exceed the amount required above for any Fiscal Year, it will revise the rates and charges for the services and facilities furnished by the Project and, if necessary, it will revise its plan of operation in relation to the collection of bills for such services and facilities, so that such deficiency will be made up before the end of the Fiscal Year following that Fiscal Year in which such deficiency occurred. Should any deficiency not be made up in such following Fiscal Year, the requirement therefor shall be cumulative and AMP shall continue to revise such rates until such deficiency shall have been completely made up.

*Power Sales Contract; Project Agreements.* AMP covenants and agrees that it will not suffer, permit or take any action or do anything or fail to take any action or fail to do anything which may result in the termination of the Power Sales Contract so long as any Parity Obligations are outstanding; that it will fulfill its obligations and will require the Participants to perform punctually their duties and obligations under the Power Sales Contract and will otherwise administer the Power Sales Contract in accordance with its terms to assure the timely payment of all amounts payable by the Participants thereunder, all in accordance with the terms of the Power Sales Contract; that it will not execute or agree to any change, amendment or modification of or supplement to the Power Sales Contract except by supplemental contract, as the case may be, duly executed by the applicable Participants and AMP, and upon the further terms and conditions set forth the Master Indenture; and that, except as provided the Master Indenture, it will not agree to any abatement, reduction, abrogation, waiver, diminution or other modification in any manner or to any extent whatsoever of the obligation of any Participant under the Power Sales Contract to meet its obligations as provided in such Contract.

So long as any Parity Obligations are outstanding, AMP shall (i) perform, or cause to be performed, all of its obligations under the Meldahl Agreements and any Related Agreement and take such actions and proceedings from time to time as shall be necessary to protect and safeguard the security for the payment of the Bonds afforded by the provisions of such Project Agreements and (ii) not voluntarily consent to or permit any rescission or consent to any amendment to or otherwise take any action under or in connection with any Project Agreement which will limit or reduce the obligation of the other parties thereto to make payments provided therein or which will have a material adverse effect on the security for the payment of Parity Obligations.

*Covenant Against Sale or Encumbrances; Exceptions.* AMP covenants that, except as provided below, it will not sell, exchange or otherwise dispose of or encumber the Project or any part thereof.

AMP may from time to time sell, exchange or otherwise dispose of any equipment, motor vehicles, machinery, fixtures, apparatus, tools, instruments or other movable property if it determines that such articles are no longer needed or are no longer useful in connection with the Project, and the proceeds thereof shall be applied to the replacement of the properties so sold, exchanged or disposed of or shall be transferred first to the Parity Common Reserve Account and any Special Reserve Account pro rata to the extent of any deficiency therein, then to the Reserve and Contingency Subfund to the extent of any deficiency therein, and then to the Acquisition and Construction Subfund or to the Redemption Account in the Bond Subfund for the purchase or redemption of Parity Obligations in accordance with the provisions of the Master Indenture, all as directed in an Officer's Certificate.

Subject to the provisions of the Project Agreements, AMP may from time to time sell, exchange or otherwise dispose of (but not lease or contract for the use thereof except where AMP remains fully obligated under the Master Indenture and, if the rent in question exceeds 5% of the Gross Revenues of AMP for the preceding Fiscal Year, AMP shall expressly determine that such lease, contract or agreement

will not materially impair the ability of AMP to meet the Rate Covenant) any other property of the Project if it determines by Board resolution:

1. that such property is no longer needed or is no longer useful in connection with the Project, or
2. that the sale, exchange or other disposition thereof would not materially adversely affect the operating efficiency of the Project,

and the proceeds, if any, thereof shall be transferred first to the Parity Common Reserve Account or any Special Reserve Account to the extent of any deficiency therein, then to the Reserve and Contingency Subfund to the extent of any deficiency therein, and then to the Acquisition and Construction Subfund or the Redemption Account in the Bond Subfund for the purchase or redemption of Bonds in accordance with the provisions of the Master Indenture, all as directed in an Officer's Certificate.

*Annual Budget.* Subject to the provision of the required information from the other parties to the Project Agreements, AMP covenants that, on or before the 45th day preceding the first day of each Fiscal Year, it will prepare with respect to the Project a preliminary budget of Gross Revenues and AMP Operating Expenses and a preliminary budget of capital expenditures for the ensuing Fiscal Year.

AMP further covenants that on or before the last day in such Fiscal Year it will finally adopt the budget of Gross Revenues and Operating Expenses and the budget of capital expenditures for the ensuing Fiscal Year (which budgets together with any amendments thereof or supplements thereto as hereinafter permitted being herein sometimes collectively called the "Annual Budget").

If for any reason AMP shall not have adopted the Annual Budget before the first day of any Fiscal Year, the preliminary budget for such Fiscal Year or, if there is none, the budget for the preceding Fiscal Year, shall, until the adoption of the Annual Budget, be deemed to be in force and shall be treated as the Annual Budget.

## **Defaults and Remedies**

*Events of Default.* Under the Master Indenture, the following events constitute an Event of Default: (a) failure to make any payment of the principal of and the redemption premium, if any, on any of the Bonds or any Parity Debt when and as the same shall be due and payable, either at maturity or by redemption or otherwise; (b) failure to make any payment of the interest on any of the Bonds or any Parity Debt when and as the same shall be due and payable; (c) an event of default shall have occurred under any Supplemental Indenture or the Trustee shall have received written notice from any Holder of an event of default under any Parity Debt Indenture; (d) AMP's failure perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to AMP by the Trustee; provided, however, that if such failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected; (e) AMP fails to make any required payment with respect to any Subordinate Obligations or other indebtedness (other than any Bond, Parity Debt or Subordinate Obligations), whether such indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness, whether such indebtedness now exists or shall hereafter be created, shall occur, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument or a trustee acting on its behalf, and as a result of such failure



to pay or other event of default such indebtedness shall have been accelerated and such acceleration, in the opinion of the Trustee, does or could materially adversely affect the Owners of Bonds and the Holders of Parity Debt; or (f) certain events relating to bankruptcy, insolvency, reorganization or other related proceedings.

Upon the occurrence of an Event of Default, the Trustee shall give prompt written notice to AMP specifying the nature of the Event of Default. AMP shall give the Trustee notice of all events of which it is aware that either constitute Events of Default under the Master Indenture or, upon notice by AMP or the Trustee or the passage of time, would constitute Events of Default.

*Acceleration.* Upon the occurrence of, and continuance for a period of not less than 90 days, the Events of Default detailed in (a) and (b) above, the Trustee may, and upon the written request of the Owners or Holders of not less than a majority in aggregate principal amount of Parity Obligations then outstanding shall, by notice to AMP, declare the principal of all Parity Obligations then Outstanding immediately due and payable. If, however, at any time after the principal of the Parity Obligations shall have been accelerated and before the entry of final judgment or decree in any suit instituted on account of such default, money sufficient to pay the principal of all matured Parity Obligations and all arrears of interest, if any, upon all Parity Obligations then Outstanding (including any sinking fund requirement, but excluding the principal on any Parity Obligation not due and payable in accordance with its terms) shall have been deposited with the Trustee and all other defaults known to the Trustee in the observance of the covenants contained in the Bonds, any Parity Debt, the Master Indenture or any Parity Debt Indenture shall have been remedied to the satisfaction of the Trustee, the Trustee shall rescind and annul such declaration.

*Remedies.* Upon the happening and continuance of any Event of Default, then and in every case the Trustee may, and upon the written request of the Owners or Holders of not less than a majority in aggregate principal amount of Parity Obligations then outstanding shall, proceed to enforce its rights and the rights of the Owners and Holders of the Parity Obligations then Outstanding under applicable laws and under the Master Indenture by such suits or other actions, in equity or at law.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Owners or Holders of not less than a majority of the aggregate principal amount of the Parity Obligations then Outstanding, shall, subject to appropriate indemnification, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Owners and Holders, provided that such request and the action to be taken by the Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Trustee, are not unduly prejudicial to the interest of the Owners and Holders not making such request.

*Control of Proceedings.* Anything in the Master Indenture to the contrary notwithstanding, the Owners or Holders of a majority in aggregate principal amount of Parity Obligations at any time Outstanding shall have the right, subject to the provisions of the Master Indenture relating to indemnification of the Trustee, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Master Indenture, provided that such direction shall be in accordance with law and the provisions of the Master Indenture, and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of any Owners or Holders not joining in such direction, and provided further, that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and provided further that nothing shall impair the right of the Trustee in its discretion to take any other action under the Master

Indenture which it may deem proper and which is not inconsistent with such direction by the Owners or Holders.

*Restriction on Individual Action.* Except in respect of an Owner's or Holder's right to enforce payment of a Parity Obligation, no Owner or Holder shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or Parity Debt or for the execution of any trust under the Master Indenture or for any other remedy under the Master Indenture unless such Owner or Holder previously shall (a) has given to the Trustee written notice of the Event of Default on account of which suit, action or proceeding is to be instituted, (b) has requested the Trustee to take action after the right to exercise such powers or right of action, as the case may be, shall have accrued, (c) has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or to institute such action, suit or proceedings in its or their name, and (d) has offered to the Trustee reasonable security and satisfactory indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

## **Supplements and Amendments**

*Supplemental Indentures Without Consent.* AMP and the Trustee may execute and deliver Supplemental Indentures without the consent of or notice to any of the Owners or Holders to: (a) cure any ambiguity or formal defect or omission in the Master Indenture, or any conflict between the provisions of the Master Indenture and of the Power Sales Contract or of any Parity Debt Indenture delivered to the Trustee at the same time as AMP delivers the Master Indenture, to correct or supplement any provision the Master Indenture that may be inconsistent with any other provision therein, to make any other provisions with respect to matters or questions arising under the Master Indenture, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Master Indenture; (b) grant or confer upon the Trustee, for the benefit of the Owners or Holders, any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners, the Holders or the Trustee, (c) add to the provisions of the Master Indenture other conditions, limitations and restrictions thereafter to be observed; (d) add to the covenants and agreements of AMP in the Master Indenture other covenants and agreements thereafter to be observed by AMP or to surrender any right or power in the Master Indenture reserved to or conferred upon AMP, (e) obtain a Credit Facility, Reserve Alternative Instrument, a Derivative Agreement, or other credit enhancement; provided, however, that no Rating Agency shall reduce or withdraw its rating on any of the Parity Obligations then Outstanding as a consequence of any such provision of such Supplemental Indenture, (f) enable AMP to comply with its obligations, covenants and agreements made in the Master Indenture or in any Parity Debt Indenture for the purpose of maintaining the tax status of interest or ability of AMP to receive a Federal Subsidy on any Tax-Advantaged Parity Obligations, provided that such change shall not materially adversely affect the security for any Parity Obligations, (g) to extent that such action is inconsistent with the provisions of the Master Indenture or any Supplemental Indenture, to enable AMP to perform any and all acts required by the order of FERC, or its successor, affecting the Project, or (h) make any other change that, in the opinion of the Trustee, which may, but is not required to, rely upon one or more of affirmation of ratings by the Rating Agencies, certificates of Independent Consultants and Opinions of Counsel for such purpose, shall not materially adversely affect the security for the Parity Obligations.

*Supplemental Indentures With Consent.* The Owners and Holders of not less than a majority in aggregate principal amount of the Parity Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution and delivery of such Supplemental Indentures as are deemed necessary or desirable by AMP for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any

of the terms or provisions contained in the Master Indenture or in any Supplemental Indenture; provided, however, that nothing contained in the Master Indenture shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond or Parity Debt without the consent of the Owner of such Bond or the Holder of such Parity Debt, (b) a reduction in the principal amount of any Bond or Parity Debt or the redemption premium or the rate of interest thereon without the consent of the Owner of such Bond or the Holder of such Parity Debt, (c) the creation of a security interest in or a pledge of Net Receipts other than the security interest and pledge created by the Master Indenture without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, (d) a preference or priority of any Bond or Parity Debt over any other Bond or Parity Debt without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding or (e) a reduction in the aggregate principal amount of the Parity Obligations required for consent to such Supplemental Indenture without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding.

*Supplemental Power Sales Contract Without Consent.* AMP and the Participants may, from time to time and at any time, consent to such contracts, supplemental or amendatory to the Power Sales Contract as shall not be inconsistent with the terms and provisions of the Master Indenture,

1. to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in the Power Sales Contract or in any supplemental or amendatory contract, or
2. to grant to AMP for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or AMP, or
3. to make any other change in, or waive any provision of, the Power Sales Contract, provided only that the ability of AMP to comply with the provisions of the Rate Covenant shall not thereby be materially impaired.

*Supplemental Power Sales Contract with Consent.* Except for as provided above, AMP shall not agree to any supplemental or amendatory contract respecting the Power Sales Contract, unless notice of the proposed execution of such supplemental or amendatory contract shall have been given and the Owners and Holders of not less than a majority in aggregate principal amount of the Bonds and Parity Debt then outstanding shall have consented to and approved the execution thereof, such consent to be obtained in the same manner as Supplemental Indentures requiring the consent of Owners or Holders.

*Defeasance.* The lien of the Master Trust Indenture shall be released when:

- (a) the Bonds and any Parity Debt shall have become due and payable in accordance with their terms or otherwise as provided in the Master Indenture, and the whole amount of the principal and the interest and premium, if any, so due and payable upon all Parity Obligations shall be paid, or
- (b) if the Bonds and any Parity Debt shall not have become due and payable in accordance with their terms, the Trustee or the Bond Registrar shall hold sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of and the interest and redemption premium, if any, on all Parity Obligations then Outstanding to the maturity date or dates of such Parity Obligations or to the date or dates specified for the redemption thereof, as verified by a nationally recognized Independent Consultant, and, if Bonds or any Parity Debt are to be called for redemption, irrevocable instructions to call the Bonds or Parity Debt for redemption shall have been given by AMP to the Trustee, and

(c) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Master Indenture by AMP.

## APPENDIX F-1

### PROPOSED FORM OF OPINION OF PECK, SHAFFER & WILLIAMS LLP

\_\_\_\_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Ladies and Gentlemen:

We have examined the transcript of proceedings relating to the issuance of \$45,495,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable) (the "2010A Bonds"), \$260,000,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "2010B Bonds"), \$20,000,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewal Energy Bonds) (the "2010C Bonds") and \$4,570,000 Meldahl Hydroelectric Project Revenue Bonds, Series 2010D (Tax-Exempt) (the "2010D Bonds" and together with the 2010A Bonds, 2010B Bonds, and 2010C Bonds, the "Bonds") issued by American Municipal Power, Inc. ("AMP") to finance capital expenditures, costs and expenses associated with the hydroelectric facility to be constructed on the Captain Anthony Meldahl Locks and Dam on the Ohio River (the "Project"), to repay draws on a line of credit to finance certain expenditures relating to the Project, to fund capitalized interest on the Bonds, to fund deposits to the Parity Common Reserve Account and two Special Reserve Accounts, and to pay the costs of issuance of the Bonds. The transcript documents include executed counterparts of: (i) Resolution No. 10-10-3049 adopted by the Board of Trustees of AMP on October 25, 2010 (the "Resolution"); (ii) the Power Sales Contract dated as of March 1, 2009 (the "Power Sales Contract") between AMP and 48 of its members, located in Ohio, Kentucky, Virginia and Michigan (the "Participants"); (iii) the Master Trust Indenture dated as of October 1, 2010 between AMP and U.S. Bank National Association, as trustee (the "Master Indenture"); (iv) the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture, each dated as of October 1, 2010 and each between AMP and U.S. Bank National Association, as trustee (the "First Supplemental Indenture," the "Second Supplemental Indenture," the "Third Supplemental Indenture," and the "Fourth Supplemental Indenture," respectively and, together with the Master Indenture, as previously supplemented, the "Indenture"); and (v) other documents executed and delivered in connection with the issuance of the Bonds. We have also examined the Constitution and laws of the State of Ohio and such other documents, certifications and records as we have deemed necessary for purposes of this opinion. We have also examined the form of the Bonds.

Based upon the examinations above referred to, we are of the opinion that, under the law in effect on the date of this opinion:

1. The Bonds have been duly authorized, executed, issued and delivered by AMP and constitute legal, valid and binding special obligations of AMP, enforceable in accordance with their terms. The principal of and interest on the Bonds are payable solely from and secured by: (a) the Gross Receipts, as defined in the Master Indenture, (b) all moneys and investments in certain funds established by the Indenture, and (c) all rights, interests and property pledged and assigned to the Trustee under the Indenture. The Bonds do not constitute a debt, or a pledge of

the faith and credit of the Participants or of any political subdivision of the State of Ohio and the registered owners thereof will have no right to have excises or taxes levied by the General Assembly of the State, the Participants or any other political subdivision of the State for the payment of debt service on the Bonds. AMP has no taxing power.

2. The Indenture has been duly authorized executed and delivered by AMP and constitutes a valid and binding obligation of AMP, enforceable in accordance with its terms.

3. Interest on the Bonds is exempt from taxes levied by the State of Ohio and its subdivisions, including the Ohio personal income tax, and also excludible from the net income base used in calculating the Ohio corporate franchise tax. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Bonds.

In giving this opinion, we have relied upon covenants and certifications of facts made by officials of AMP and others contained in the transcript which we have not independently verified. We have also relied upon the opinion of Chester, Willcox & Saxbe LLP, as general counsel to AMP, as to the matters contained therein. It is to be understood that the enforceability of the Bonds, the Indenture and all other documents relating to the issuance of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to the exercise of judicial discretion. Capitalized terms not defined herein have the meanings given them in the Official Statement dated December 2, 2010 relating to the offering of the Bonds.

We bring to your attention the fact that our legal opinions are an expression of professional judgment and are not a guaranty of a result.

We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinions expressed herein.

Very truly yours,

## APPENDIX F-2

### PROPOSED FORMS OF OPINION OF SIDLEY AUSTIN LLP

December \_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Re: \$260,000,000 American Municipal Power, Inc.  
Meldahl Hydroelectric Project Revenue Bonds  
Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds)

We have acted as Federal Tax Counsel in connection with the issuance by American Municipal Power, Inc., an Ohio non-profit corporation (“AMP”), of its bonds described above (the “Bonds”). For purposes of rendering this opinion, we have examined, among other things, certified copies of:

- (i) Resolution No. 10-10-3049, adopted on October 25, 2010, by the Board of Trustees of AMP authorizing the Bonds (the “Authorizing Resolution”);
- (ii) the Power Sales Contract, dated as of March 1, 2009, between AMP and 48 of its members, located in Kentucky, Ohio, Michigan and Virginia (such members, the “Participants,” and such contract, the “Power Sales Contract”);
- (iii) the Master Trust Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Master Indenture”);
- (iv) the Second Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Second Supplemental Indenture”);
- (v) the Tax Certificate delivered on the date hereof by AMP (the “Tax Certificate”) in which it has made certain representations and covenants concerning current and future compliance with the Internal Revenue Code of 1986, as amended (the “Code”);
- (vi) a form of the Certificate of each of the Participants in which each Participant is to make certain representations and covenants concerning current and future compliance with the Code (the “Participant Certificates”);

and other documents, proceedings and matters relating to the federal tax status of the Bonds as we deemed relevant to this opinion.

For purposes of rendering this opinion, we have assumed that each of the Authorizing Resolution, the Power Sales Contract, the Master Indenture and the Second Supplemental Indenture has been duly authorized, executed and delivered by the parties thereto and is valid and binding in accordance its terms.

We have assumed, without independent verification, (i) the genuineness of certificates, records and other documents submitted to us and the accuracy and completeness of the statements contained therein; (ii) that all documents and certificates submitted to us as originals are accurate and complete; (iii) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (iv) that all information submitted to us, and all representations and warranties made, in the Tax Certificate and otherwise are accurate and complete. We have also assumed, without independent investigation, the correctness of the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, delivered

in connection with the issuance of the Bonds, that the Bonds constitute valid and binding obligations of AMP.

On the basis of the foregoing examination, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant in the circumstance, we are of the opinion that, under existing law, assuming compliance by AMP with certain covenants in the Authorizing Resolution and the Tax Certificate, and requirements of the Code, regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, and compliance by the Participants with covenants contained in the Power Sales Contract and the Participant Certificates and the applicable requirements of the Code, the Bonds constitute “qualified bonds” within the meaning of Section 54AA(g) of the Code and are eligible for the credit payable by the federal government under Section 6431 of the Code (the “Refundable Credit”). Failure by AMP or the Participants to comply with such covenants and requirements, or failure to timely request the Refundable Credit with respect to each interest payment of the Bonds, may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the Bonds to cease to be treated as qualified bonds either prospectively from the date of determination or retroactively to their date of issuance.

Other than as described herein, we have not addressed, and are not opining on any tax matters relating to the Bonds. Further, we express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the qualification of the Bonds as qualified bonds under Section 54AA(g) of the Code or their eligibility for the credit payable by the federal government under Section 6431 of the Code.

More generally, we express no opinion with respect to the procedures regarding, and the availability of funds with respect to, the payment of the Refundable Credit by the federal government. Further, there is no assurance that the federal government (a) will continue to pay the Refundable Credit for the term of the Bonds, (b) will not reduce the Refundable Credit during the term of the Bonds, and (c) will not attempt to offset the Refundable Credit against another amount the federal government asserts is owed by AMP to the federal government.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

You have received the opinion of Peck Shaffer & Williams LLP regarding the State of Ohio tax consequences of ownership of or receipt or accrual of interest on the Bonds, and we express no opinion as to such matters.

We bring to your attention the fact that our legal opinions and conclusions are an expression of professional judgment and are not a guarantee of a result. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof.

IRS Circular 230 Disclosure: To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments, was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service.



In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transaction(s) or matter(s) addressed in this communication, and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Respectfully submitted,

December \_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Re: \$20,000,000 American Municipal Power, Inc.  
Meldahl Hydroelectric Project Revenue Bonds  
Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewable Energy Bonds)

We have acted as Federal Tax Counsel in connection with the issuance by American Municipal Power, Inc., an Ohio non-profit corporation (“AMP”), of its bonds described above (the “Bonds”). For purposes of rendering this opinion, we have examined, among other things, certified copies of:

- (i) Resolution No. 10-10-3049, adopted on October 25, 2010, by the Board of Trustees of AMP authorizing the Bonds (the “Authorizing Resolution”);
- (ii) the Power Sales Contract, dated as of March 1, 2009, between AMP and 48 of its members, located in Kentucky, Ohio, Michigan and Virginia (such members, the “Participants,” and such contract, the “Power Sales Contract”);
- (iii) the Master Trust Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Master Indenture”);
- (iv) the Third Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the “Third Supplemental Indenture”);
- (v) the Tax Certificate delivered on the date hereof by AMP (the “Tax Certificate”) in which it has made certain representations and covenants concerning current and future compliance with the Internal Revenue Code of 1986, as amended (the “Code”);

and other documents, proceedings and matters relating to the federal tax status of the Bonds as we deemed relevant to this opinion.

For purposes of rendering this opinion, we have assumed that each of the Authorizing Resolution, the Power Sales Contract, the Master Indenture and the Third Supplemental Indenture has been duly authorized, executed and delivered by the parties thereto and is valid and binding in accordance its terms.

We have assumed, without independent verification, (i) the genuineness of certificates, records and other documents submitted to us, and the accuracy and completeness of the statements contained therein; (ii) that all documents and certificates submitted to us as originals are accurate and complete; (iii) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (iv) that all information submitted to us, and all representations and warranties made, in the Tax Certificate or otherwise are accurate and complete. We have also assumed, without independent investigation, the correctness of the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, delivered in connection with the issuance of the Bonds, that the Bonds constitute valid and binding obligations of AMP.

On the basis of the foregoing examination, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant in the circumstance, we are of the opinion that, under current law, assuming compliance by AMP with certain covenants in the Authorizing Resolution and the Tax Certificate, and requirements of the Code, regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, the Bonds are “new clean renewable energy bonds” within the meaning of Section 54C of the Code eligible for the

credit payable by the federal government under Section 6431(f) of the Code with respect to “specified tax credit bonds,” as defined in Section 6431(f)(3) of the Code, subject to the limitation in Section 6431(f)(2) of the Code (the “Refundable Credit”). Failure by AMP to comply with such covenants and requirements, or failure to timely request the Refundable Credit with respect to each interest payment of the Bonds, may result in a delay or forfeiture of all or a portion of the Refundable Credit and may cause the Bonds to cease to be treated as new clean renewable energy bonds within the meaning of Section 54C of the Code, either prospectively from the date of determination or retroactively to their date of issuance.

Other than as described herein, we have not addressed, and are not opining on, any tax matters relating to the Bonds. Further, we express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the qualification of the Bonds as new clean renewable energy bonds under Section 54C of the Code or their eligibility for the credit payable by the federal government under Section 6431(f) of the Code.

More generally, we express no opinion with respect to the procedures regarding, and the availability of funds with respect to, the payment of the Refundable Credit by the federal government. Further, there is no assurance that the federal government (a) will continue to pay the Refundable Credit for the term of the Bonds, (b) will not reduce the Refundable Credit during the term of the Bonds, and (c) will not attempt to offset the Refundable Credit against another amount the federal government asserts is owed by AMP to the federal government.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions. Such opinion may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

You have received the opinion of Peck Shaffer & Williams LLP regarding the State of Ohio tax consequences of ownership of or receipt or accrual of interest on the Bonds, and we express no opinion as to such matters.

We bring to your attention the fact that our legal opinion is an expression of professional judgment and is not a guarantee of a result. The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions. Such opinion may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof.

IRS Circular 230 Disclosure: To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments, was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transaction(s) or matter(s) addressed in this communication, and (ii) the taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

Respectfully submitted,

\_\_\_\_\_, 2010

American Municipal Power, Inc.  
Columbus, Ohio

Re: \$4,570,000 American Municipal Power, Inc.  
Meldahl Hydroelectric Project Revenue Bonds  
Series 2010D (Tax-Exempt)

We have acted as Federal Tax Counsel in connection with the issuance by American Municipal Power, Inc., an Ohio non-profit corporation ("AMP"), of its bonds described above (the "Bonds"). For purposes of rendering this opinion, we have examined, among other things, certified copies of:

- (i) Resolution No. 10-10-3049, adopted on October 25, 2010, by the Board of Trustees of AMP authorizing the Bonds (the "Authorizing Resolution");
- (ii) the Power Sales Contract, dated as of March 1, 2009, between AMP and 48 of its members, located in Kentucky, Ohio, Michigan and Virginia (such members, the "Participants," and such contract, the "Power Sales Contract");
- (iii) the Master Trust Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the "Master Indenture");
- (iv) the Fourth Supplemental Indenture, dated as of October 1, 2010, between AMP and U.S. Bank National Association, as trustee (the "Second Supplemental Indenture");
- (v) the Tax Certificate delivered on the date hereof by AMP (the "Tax Certificate") in which it has made certain representations and covenants concerning current and future compliance with the Internal Revenue Code of 1986, as amended (the "Code");
- (vi) a form of the Certificate of each of the Participants in which each Participant is to make certain representations and covenants concerning current and future compliance with the Code (the "Participant Certificates");

and other documents, proceedings and matters relating to the federal tax status of the Bonds as we deemed relevant to this opinion.

For purposes of rendering this opinion, we have assumed that each of the Authorizing Resolution, the Power Sales Contract, the Master Indenture and the Fourth Supplemental Indenture has been duly authorized, executed and delivered by the parties thereto and is valid and binding in accordance its terms.

We have assumed, without independent verification, (i) the genuineness of certificates, records and other documents submitted to us and the accuracy and completeness of the statements contained therein; (ii) that all documents and certificates submitted to us as originals are accurate and complete; (iii) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (iv) that all information submitted to us, and all representations and warranties made, in the Tax Certificate and otherwise are accurate and complete. We have also assumed, without independent investigation, the correctness of the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, delivered in connection with the issuance of the Bonds, that the Bonds constitute valid and binding obligations of AMP.

On the basis of the foregoing examination, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant in the circumstance, we are of the opinion that, under existing law:

1. Assuming compliance with the requirements and covenants described in the next sentence, interest on the Bonds is not includable in gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will be includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds in the event of a failure by AMP to comply with the applicable requirements of the Code, and the covenants contained in the Tax Certificate regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, the Participants to comply with the applicable requirements of the Code and the covenants contained in the Power Sales Contract and the Participant Certificates, and we express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

2. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of the Bonds or the inclusion in certain computations of interest that is excluded from gross income.

You have received the opinion of Peck Shaffer & Williams LLP regarding the State of Ohio tax consequences of ownership of or receipt or accrual of interest on the Bonds, and we express no opinion as to such matters.

We bring to your attention the fact that our legal opinions and conclusions are an expression of professional judgment and are not a guarantee of a result. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof.

Respectfully submitted,

## APPENDIX G

### BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Series 2010A-D Bonds. The Series 2010A-D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Series 2010A-D Bonds, in the aggregate principal amount of such issues, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned and operated by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2010A-D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010A-D Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010A-D Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2010A-D Bonds, except in the event that use of the book-entry system for the Series 2010A-D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010A-D Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010A-D Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010A-D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010A-D Bonds are credited, which may or may not be the Beneficial Owners. The Direct

and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2010A-D Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010A-D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2010A-D Bonds may wish to ascertain that the nominee holding the Series 2010A-D Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010A-D Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to AMP as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010A-D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

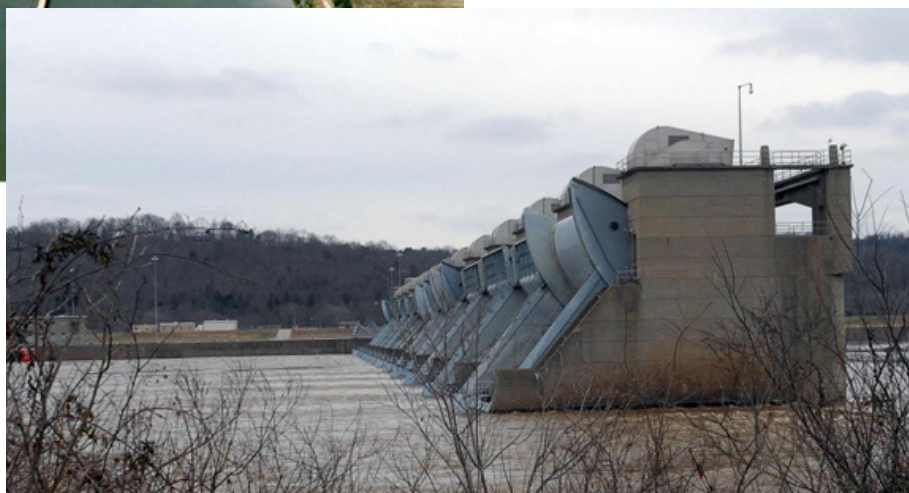
Principal and interest payments on the Series 2010A-D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from AMP or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or AMP, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of AMP or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010A-D Bonds at any time by giving reasonable notice to AMP or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

AMP may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this Appendix G concerning DTC and DTC's book-entry system has been obtained from sources that AMP believes to be reliable, but neither AMP nor the Underwriters takes any responsibility for the accuracy thereof.

# **MELDAHL HYDROELECTRIC PROJECT CONSULTING ENGINEER'S REPORT**



**PREPARED FOR  
AMERICAN MUNICIPAL POWER, INC.  
BY SAWVEL AND ASSOCIATES, INC.**

**DECEMBER 2, 2010**





**MELDAHL HYDROELECTRIC PROJECT  
CONSULTING ENGINEER’S REPORT  
American Municipal Power, Inc.**

**T A B L E O F C O N T E N T S**

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Appendix A – Ohio River Main Stem Navigation System

Appendix B – Projected Meldahl Hydroelectric Project Performance and Cost

**MELDAHL HYDROELECTRIC PROJECT  
CONSULTING ENGINEER’S REPORT  
AMERICAN MUNICIPAL POWER, INC.**

**G L O S S A R Y   O F   T E R M S**

**2009 Report** – Report on Meldahl – Greenup Technical and Economic Feasibility Study

**401 Certification** – Kentucky State Clean Water Act 401 Certification

**AACEI**– Association for the Advancement of Cost Engineering International

**AEP** – American Electric Power

**BABs** – Build America Bonds

**Board** – Board of Directors of Meldahl, LLC

**CFS** – Cubic Feet Per Second

**Corps** – U. S. Army Corps of Engineers

**CREBs** – Clean Renewable Energy Bonds

**DSC** – Differing Site Conditions

**EA** – EA Engineering and Science

**EKPC** – East Kentucky Power Cooperative

**Existing Power Sales Contracts** – Power sales contracts for AMP’s Ownership Interests in the combined Cannelton, Smithland and Willow Island Hydroelectric projects

**FERC** – Federal Energy Regulatory Commission

**GBR** – Geotechnical Baseline Report

**GDR** – Geotechnical Data Report

**Greenup Project or Greenup** – Greenup Hydroelectric Project

**Hamilton** – City of Hamilton, Ohio

**Indebtedness** – Bonds and other indebtedness issued to provide permanent financing for each Project.

**IRS** – Internal Revenue Service

**ITC** – Investment Tax Credits

**kW** – Kilowatt or 1,000 Watts

**LMP** – Locational Marginal Pricing

**Meldahl, LLC** – Not-for-profit limited liability company organized under the laws of the State of Delaware to own, hold, maintain, and operate the Meldahl Project

**Meldahl Project or Meldahl** – Meldahl Hydroelectric Project

**Meldahl Related Agreements:**

**MOA** – Meldahl, LLC Operating Agreement

**Participation Agreement** – Meldahl–Greenup Participation Agreement

**PCOA** – Meldahl Purchase, Construction and Ownership Agreement

**PDAA** – Meldahl Project Development and Agency Agreement

**POA** – Meldahl Project Operating Agreement

**Members** – AMP members

**MISO** – Midwest Independent Transmission System Operator

**MW** – Megawatt or 1,000 kW

**MWh** – Megawatt hour

**MTI** – Master Trust Indenture, Master Indenture or Indenture

**OCIP** – Owner’s Controlled Insurance Policy

**PJM** – Pennsylvania – New Jersey – Maryland Interconnection, LLC

**Project** – Meldahl Hydroelectric Project

**Project Management Committee** – Management Committee for the Meldahl Project

**Project Share** – a Participant’s nominal entitlement to capacity and associated energy from the Project. Expressed as a percentage, it is the result of dividing the Participant’s Project Share in kW by the sum of all such Project Shares, including the Participant’s.

**PSCR or Power Sales Contract Resources** – in connection with Existing Power Sales Contracts for other projects refers to the output of the referenced project and replacement power. The Meldahl Power Sales Contract does not provide for replacement power.

**PSCR Share** – in connection with Existing Power Sales Contracts for other projects refers to a participant’s share of PSCR associated with the related project.

**Report** – Meldahl Hydroelectric Project Consulting Engineer’s Report

**Representative** – Members of the Project Management Committee (2) members, one each from AMP and Hamilton

**RPM** – Reliability Pricing Model

**Step Up Power** – The pro rata share of the Project Shares the non-defaulting Participants are required to purchase in the event of a default by a Participant.

**USFWS** – United States Fish and Wildlife Service

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## EXECUTIVE SUMMARY

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Sawvel and Associates, Inc. (“Sawvel”) prepared this Meldahl Hydroelectric Project Consulting Engineer’s Report (the “Report”), for inclusion in the Official Statement to which this Report is appended, to provide (i) a description of the 105 MW Meldahl Hydroelectric Project (the “Meldahl Project” or “Meldahl” or the “Project”) undertaken by American Municipal Power, Inc. (“AMP”) on the Ohio River and (ii) an assessment and analysis of (A) the estimates of the capital costs and (B) projections of the operating costs of the Project. In March 2009, AMP and the City of Hamilton, Ohio (Hamilton), a member of AMP, reached agreement to jointly develop, construct, and operate the Meldahl Project and for AMP to purchase a 34.1 MW ownership interest in Hamilton’s existing 70.2 MW Greenup Hydroelectric Project, also located on the Ohio River. AMP will construct and finance the Meldahl Project and Hamilton will operate the Meldahl and Greenup projects.

Meldahl is currently licensed by the Federal Energy Regulatory Commission (“FERC”) jointly to Hamilton and AMP as co licensees. The remaining term of the FERC License for the Meldahl Project is approximately 48 years. Hamilton and AMP expect to apply for and receive renewal of the Meldahl FERC License at the end of its term, June 24, 2058.

AMP received a Section 404 permit from the Army Corps of Engineers on April 8, 2010. This permit was the last major permit required for construction to commence on the Meldahl Project. The Project is expected to be in commercial operation (all units) by July 15, 2014. Please see Section IV – Current Plans for Constructing, Financing, and Operating the Project for specific Meldahl commercial operation dates.

This Report is a condensed update of the Report on Meldahl – Greenup Technical and Economic Feasibility Study, dated October, 2009 (2009 Report) provided by Sawvel and Associates, Inc. to AMP members in connection with their decision to subscribe, or not, for shares of the output of the Meldahl and Greenup projects. This Report relates solely to the Meldahl Project. Under the terms of the AMP-Hamilton Agreements, AMP will own Meldahl and Hamilton will have a 51.4% Project Share in Meldahl (54 MW) - that is, Hamilton will have an entitlement to 51.4% of the output of Meldahl and a corresponding payment obligation – and Hamilton will retain a 51.4% ownership interest in Greenup (36.1 MW). AMP offered other AMP members participation in the Meldahl and Greenup projects on a 60%-40% basis (roughly corresponding to ratio of the available capacity in Meldahl (the 48.6% (51 MW) not subscribed by Hamilton) and AMP’s 48.6% (34.1 MW) ownership interest in Greenup. For example, an AMP member subscribing for 5 MW of capacity in the two projects would in effect be asking for 3 MW of Meldahl capacity and 2 MW of Greenup capacity.

This Report provides information about the Meldahl Project, the available capacity of which has been fully subscribed to by Hamilton (51.4%) and other AMP members (“Participants”) under the terms of a Power Sales Contract with AMP. The Participants, other than Hamilton, have also executed a separate power sales contract with AMP for the available capacity associated with the ownership interest to be acquired by AMP in Greenup. AMP expects to finance its \$139 million purchase price payable to Hamilton after Meldahl is placed into commercial operation, currently estimated to be in 2014. This Report does not address the Greenup project other than in connection with the joint subscription for the available capacity in the two projects and a description of the AMP-Hamilton Agreements.

## **REPORT CONCLUSIONS**

Based on review of capital cost estimates for Meldahl and the analyses prepared for this Report, we conclude the following:

1. The Meldahl Project will be constructed using conventional bulb type turbine-generating units. Bulb type technology is common in the industry and is a proven technology that can be supported by manufacturers and hydroelectric engineers now and in the foreseeable future. AMP and Hamilton personnel are experienced in operating this technology.
2. The physical life of the Meldahl Project is expected to exceed 50 years from the beginning of commercial operation and thus should be beneficial to the Participants over a long period of time and should help the Participants maintain predictable power supply costs in the future.
3. The Meldahl Project capacity factor is projected by MWH and Sawvel at approximately 57% and is competitive with similar run-of-the-river hydroelectric generating facilities on the Ohio River such as the Belleville Hydroelectric Plant.
4. The terms of the Meldahl Power Sales Contract provide the long-term benefit of the Meldahl Project to the Participants and will provide adequate revenue to pay the debt service and operating expenses of the Meldahl Project.
5. The AMP-Hamilton Agreements that in effect provide for Hamilton and the other Participants to receive capacity and energy from two different projects – Meldahl and Greenup – provide more favorable economics and better risk mitigation as compared to Hamilton remaining the sole owner of Greenup and the other Participants taking output solely from Meldahl.



## **PROJECTED PROJECT COST**

Table S-1, Total Financial Requirement of the Meldahl Project, summarizes the Project's total financial requirement and estimated annual and monthly debt service. The projected cost of the Project is shown in Figure S-1, Projected Meldahl Hydroelectric Project Cost.

The Meldahl Project is expected to begin commercial operation (all three units) by July 15, 2014. The first full year of operation for the Project, when debt service and a full year of operating expenses will be billed to Participants, is estimated to be 2015. The estimated total cost of the Project, including financing costs, is \$6,527/kW. The Project is projected to be billed to Hamilton at approximately \$38.90/kW-month (\$93.70/MWh) in 2015 increasing to \$39.70/kW-month (\$95.80/MWh) in 2038. The Project is projected to be billed to the Participants, other than Hamilton, at approximately \$39.50/kW-month (\$95.40/MWh) in 2015 increasing to \$40.40/kW-month (\$97.40/MWh) in 2038.

This Report assumes the 2010 Bonds issued to finance the Project will have a final maturity of 2050 and a long-term net average borrowing rate of approximately 4.9%. Actual financing could vary from this assumption and could cause the projected cost of power from the Project to vary from the projections in this Report.

**Table S-1**  
**Total Financial Requirement**  
**of the Meldahl Project<sup>(1)(2)</sup>**  
**AMP**

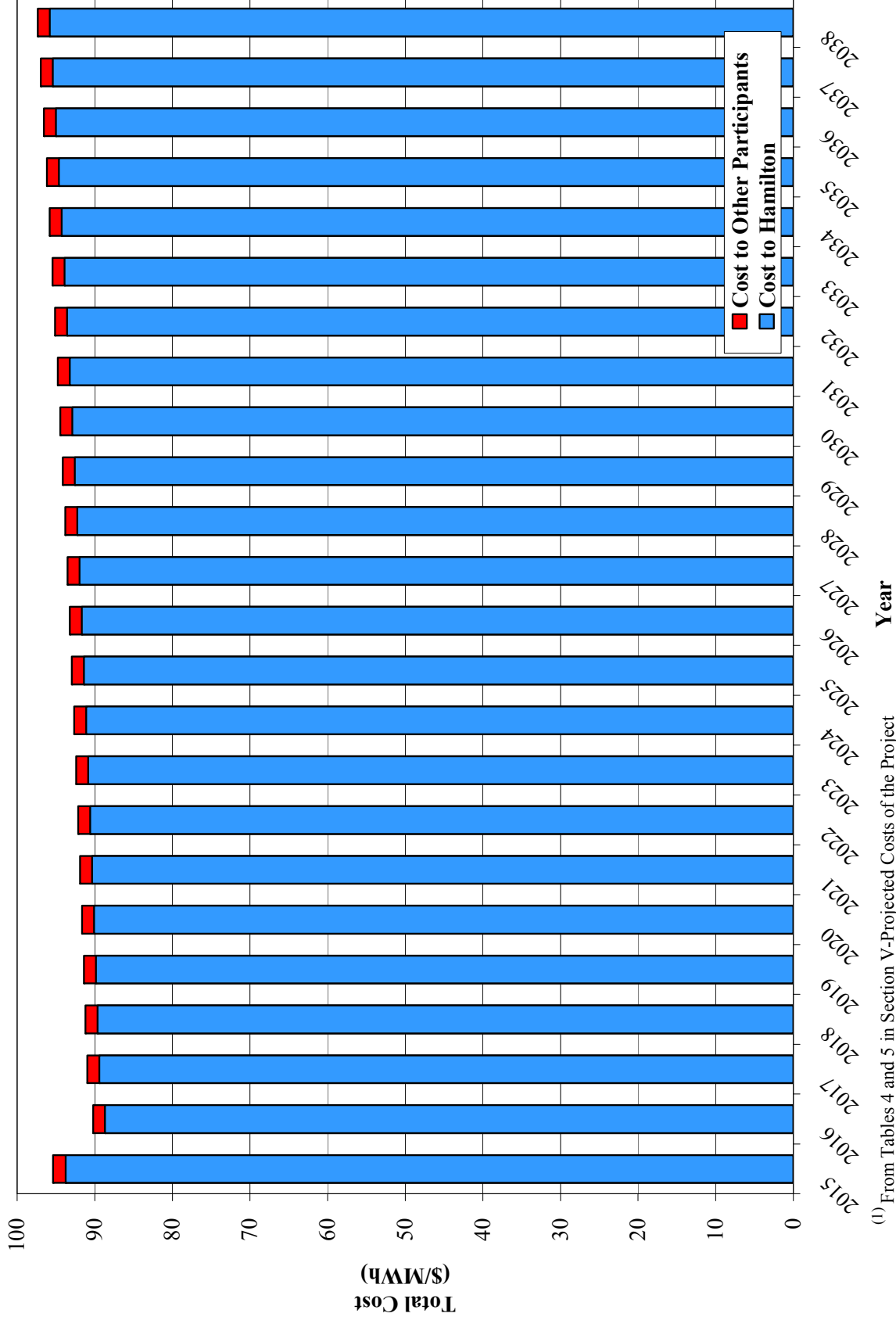
<b>Expense Item</b>	<b>(\$)</b>
Deposit to Project Fund	501,704,090
BAB Subsidy Reserve	8,062,526
New CREB Subsidy Reserve	378,000
Deposit to Debt Service Reserve Fund	41,229,028
BAB & CREB Capitalized Interest to 7/15/2014 (in service)	103,009,276
BAB & CREB Capitalized Interest from 7/15/2014 to 1/15/2015	15,079,723
Non-BAB Capitalized Interest through 1/15/2015	8,534,382
Cost of Issuance and Additional Funds	7,368,218
<b>Total Financial Requirement</b>	<b>685,365,243</b>
<b>(\$/kW)</b>	<b>6,527</b>
<b>Average Annual Net Debt Service<sup>(3)</sup></b>	<b>40,637,777</b>
<b>(\$/kW-month)</b>	<b>32.25</b>

<sup>(1)</sup> From Table 3 in Section V - Projected Costs of the Project. Includes \$4,860,000 Meldahl Participation Payment.

<sup>(2)</sup> BAB: Build America Bond  
CREB: Clean Renewable Energy Bond

<sup>(3)</sup> Net of Federal Interest Subsidies and interest earned on Debt Service Reserve Fund and Federal Subsidy Special Reserves.

**Figure S-1**  
**Projected Meldahl Hydroelectric Project Cost<sup>(1)</sup>**



## **| OTHER CONSIDERATIONS**

There are important and compelling electric industry trends that should be considered in developing hydroelectric generating projects. The electric utility industry and the general public are interested in developing generating projects that emit less air pollutants. The Project does not emit air pollutants. Approximately 84% of the annual cost of the Project is attributable to debt service by 2050. Thus, the annual cost of the Project after the debt is retired decreases to approximately 16% of the cost when debt service is included. The annual cost of the Project in 2051, the first year without debt service, is estimated at approximately \$24.60/MWh (2051\$).

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## I. INTRODUCTION

---

AMP is developing the Meldahl Project in accordance with the AMP-Hamilton Agreements. The Project is located on the Ohio River at the Captain Meldahl Locks and Dam, 36 miles upstream of Cincinnati, Ohio. The Meldahl Project FERC licensed generating capacity is 105 MW and is projected by MWH and Sawvel to generate approximately 522,288 MWh (net) annually. On June 25, 2008, Hamilton received a license for FERC Project No. 12667, to construct, operate, and maintain the Meldahl Hydroelectric Project. On June 16, 2010, Hamilton and AMP received from FERC an amendment making them co-licensees of the Meldahl FERC License.

AMP has pursued development and acquisition of hydroelectric generating facilities on behalf of its members for several reasons. Most importantly, most AMP members want to own generating resources to replace existing volatile market energy purchases. AMP retained an independent power supply consulting firm, R. W. Beck, Inc., an SAIC Company, to develop long-term power supply plans for each of its members. The results of the power supply studies concluded that owning generating facilities would be, in the long-term, less costly and less risky than purchasing energy from the PJM and MISO energy markets. AMP members are political subdivisions that own and operate electric systems, therefore they are not motivated to make a profit, but rather to acquire energy resources at the lowest reasonable cost.

## I BACKGROUND

### *Summary of Existing Power Supply Arrangements*

AMP member existing power supply resources include:

- wholesale power purchases through AMP and market energy purchases from investor-owned utilities and marketers;
- Replacement energy that was previously generated by AMP's 213 MW, coal-fired Richard H. Gorsuch Generating Station near Marietta, Ohio; (Retired November 17, 2010)
- individual member-owned generation facilities;
- municipal generation joint ventures such as the 42 MW Belleville Hydroelectric Plant at the Belleville Locks and Dam on the Ohio River; the 7.2 MW AMP Wind Farm located near Bowling Green, Ohio and approximately 334 MW of distributed peaking generation (either owned by AMP or one of the municipal joint ventures) strategically sited throughout Ohio, using natural gas and diesel fuel; and

- New York Power Authority hydroelectric energy.

The majority of members participate in AMP power pools. The power pools are typically grouped by geographic area that corresponds with the investor-owned utility that provides transmission service to the group through MISO or PJM.

AMP is pursuing a portfolio of diverse power supply resources that include coal-fired generation, hydroelectric generation, natural gas, wind, solar and landfill gas power to meet its members' energy requirements at the lowest reasonable cost taking into account other factors such as risk, availability and environmental concerns. AMP is also pursuing energy efficiency initiatives. Many of the Participants have power purchase contracts with AMP for power derived from AMP's ownership interest in the coal-fired project known as the Prairie State Energy Campus in southeastern Illinois, and AMP's Cannelton, Smithland and Willow Island hydroelectric projects on the Ohio River. Descriptions of these projects are contained in the Official Statement to which this Report is appended. All of the Meldahl Participants will also be participants in Greenup (Hamilton by virtue of its ownership interest and the other Participants through a power sales contract with AMP).

Hydroelectric generating facilities take advantage of a zero cost, renewable fuel source: water. Hydroelectric generating facilities do not emit carbon dioxide, nitrogen oxide, sulfur dioxide, or mercury. Hydroelectric generating facilities sited on the Ohio River have an added benefit in that the dams where the projects such as Meldahl, are located already exist for flood control and navigation purposes. The existence of the dams is an economic and ecological benefit to the projects because dams do not need to be constructed, thus the cost and environmental impact of building a new dam is avoided.

## **AMP, HAMILTON AND MELDAHL, LLC AGREEMENTS**

The AMP Board of Trustees requested that AMP explore the possibility of participating in the Meldahl and Greenup projects. As a result of this exploratory activity by AMP, AMP and Hamilton agreed that it would be economical and efficient to act jointly in the construction, operation, and maintenance of the Meldahl Project. Hamilton agreed to sell and AMP agreed to purchase a portion of the Greenup facility when the Meldahl Project achieves commercial operation.

AMP and Hamilton entered into several agreements regarding the ownership, financing, construction, and operation of the two projects. These agreements include:

1. Meldahl-Greenup Participation Agreement (“Participation Agreement”)
2. Meldahl Power Sales Contract (“Power Sales Contract”)
3. Meldahl, LLC Operating Agreement (“MOA”)
4. Meldahl Purchase, Construction and Ownership Agreement (“PCOA”)
5. Meldahl Project Development and Agency Agreement (“PDAA”)
6. Meldahl Project Operating Agreement (“POA”), (collectively, the “Meldahl Related Agreements”).

The AMP-Hamilton Agreements set forth the relationship between Hamilton, AMP, and Meldahl, LLC. A description of Meldahl, LLC can be found in the Official Statement to which this Report is appended. Pursuant to the terms of the Meldahl Related Agreements, Hamilton and AMP obtained FERC approval to add AMP as a licensee with Hamilton on the Meldahl FERC License and agreed to seek FERC approval to add AMP as a co-licensee with Hamilton on the Greenup FERC License.

### ***Participation Agreement***

The Meldahl-Greenup Participation Agreement was executed on March 1, 2009 by AMP, Hamilton and Meldahl, LLC. Hamilton is currently the sole owner of the Greenup Project and the sole licensee under the FERC License to develop and operate the Meldahl Project. When Meldahl achieves commercial operation, AMP will acquire an interest in the Greenup Project, and Hamilton and AMP will be joint owners and, subject to FERC approval, co-licensees of the Greenup Project. The following are key terms of the Participation Agreement that relate to Meldahl:

1. AMP has paid Hamilton \$4,860,000 for the right to participate in the Meldahl Project.
2. Hamilton will operate the Meldahl Project and purchase 51.4% (54 MW) of the output from AMP under the Meldahl Power Sales Contract.

3. AMP shall pay Hamilton from amounts payable by the Participants under the Meldahl Power Sales Contract, the Meldahl Overhead Adder (\$1.00/MWh for all energy delivered from Meldahl) on a monthly basis.

The Meldahl Adder will reimburse Hamilton for all non-electric department direct and indirect personnel, overhead and other expenses associated with Hamilton operation and management of the Meldahl Project.

Hamilton and AMP have agreed, in accordance with the Participation Agreement and the other Meldahl Related Agreements, to establish a Management Committee for the Meldahl Project (the “Project Management Committee”). The Project Management Committee shall consist of two (2) members, one each from AMP and Hamilton (each a “Representative”). The Participation Agreement, *inter alia*, sets forth: (i) the procedure for selecting the Committee’s Chair; (ii) the decisions which may require unanimous consent of the Representatives, including matters concerning financing and refinancing of the Meldahl Project; and (iii) the provisions for breaking of any deadlocks and other dispute resolution processes.

The AMP-Hamilton Agreements also provide that AMP shall pay Hamilton \$139 million to purchase 48.6% (34.1 MW) of Greenup and become a co-licensee when Meldahl begins commercial operation. AMP’s Greenup share will be 48.6% of the capacity, energy and environmental attributes and AMP will reimburse Hamilton, as operator, for 48.6% of Greenup expenses. AMP shall pay Hamilton from amounts payable by the Participants under the Greenup power sales contract, the Greenup Overhead Adder (\$1.00/MWh for AMP’s share of the energy delivered from Greenup) on a monthly basis. A failure by AMP to fulfill its obligations to Hamilton with respect to Greenup will not constitute a default under the Meldahl Power Sales Contract or under any other agreement between AMP and Hamilton that relates to the Meldahl Project.

#### ***Meldahl, LLC Operating Agreement (MOA)***

Meldahl, LLC is a not-for-profit limited liability company organized under the laws of the State of Delaware and authorized to do business in the State of Ohio. AMP is the sole member of Meldahl, LLC, which is a single purpose entity organized to own, hold, maintain, and operate the Meldahl Project. By the terms of its articles of incorporation, Meldahl, LLC shall not engage in any business or have any purpose unrelated to the Meldahl Project. Furthermore, Meldahl, LLC is at all times to be operated on a non-profit basis.

The MOA was entered into by and between AMP, the sole member of Meldahl LLC, and Hamilton. Under the terms of the MOA, Hamilton is entitled to appoint Meldahl, LLC’s



Independent Directors. Pursuant to the MOA, Meldahl, LLC shall be managed by the sole member, AMP, which shall appoint, except for the Independent Directors, a Board of Directors (the “Board”). The Board shall have the full and exclusive power on the company’s behalf to manage its business and affairs and to do or cause to be done anything deemed necessary or appropriate for Meldahl, LLC’s business subject to: (i) the provisions of the MOA, including actions requiring the unanimous consent of the Independent Directors and (ii) the Meldahl Related Agreements.

***Meldahl Purchase, Construction and Ownership Agreement (PCOA)***

Pursuant to the Meldahl Related Agreements, Meldahl, LLC shall hold title to, maintain, and operate the Project. AMP shall, on behalf of Meldahl, LLC, finance or otherwise pay for one hundred percent (100%) of all development and construction costs of the Meldahl Project.

Pursuant to the PCOA, Meldahl, LLC shall appoint AMP as its general agent for the purchase, construction, and operation of the Meldahl Project, subject to the provisions of the PDAA and POA, pursuant to which Hamilton has been retained to provide certain services related to the Meldahl Project. In accordance with the PCOA and the other Meldahl Related Agreements, AMP, as agent for Meldahl, LLC, shall be responsible for, *inter alia*, the acquisition, permitting, design, development, construction, financing, operation, maintenance, repair, and decommissioning of the Meldahl Project and shall be entitled to arrange for sale of the output of the Meldahl Project to its members that enter into the Meldahl Power Sales Contract. Hamilton shall purchase an approximate 51.4% share of the energy and capacity from the Meldahl Project pursuant to the Meldahl Power Sales Contract. AMP’s rights and responsibilities shall be solely as agent for Meldahl, LLC and references to AMP, unless the context otherwise indicates, are to AMP in its capacity as agent.

***Meldahl Project Development and Agency Agreement (PDAA)***

Hamilton shall be retained for certain services, including, but not limited to, Owner’s Agent for the Meldahl Project during its development and construction phase. As Owner’s Agent, Hamilton shall furnish certain personnel and services related to the development and construction of the Meldahl Project in compliance with the terms and conditions of the License, the PDAA and other Meldahl Related Agreements for the benefit of the parties.

***Meldahl Project Operating Agreement (POA)***

Hamilton, Meldahl, LLC and AMP have entered into the POA pursuant to which Hamilton shall, as Operator, furnish certain personnel and services related to the management and operation of the Meldahl Project in compliance with the terms and conditions of the License, the POA, and other Meldahl Related Agreements for the benefit of the parties and the Participants.

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## II. PURPOSE

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AMP retained Sawvel to prepare this Report to assess the costs of the Project. The analyses in this Report rely in part on information provided to Sawvel by AMP, AMP's hydroelectric design engineer, MWH, Hamilton, and other entities that assist AMP and Hamilton in the legal and financial aspects of the Project. AMP employs a number of nationally recognized independent, legal and financial advisory firms to assist in structuring and executing various financing arrangements. At the date of this Report, the firms engaged to assist with the development and management of the plan of finance include the following:

- Sidley Austin LLP                      Project Finance and Federal Tax Counsel
- Peck Shaffer & Williams LLP      Bond Counsel
- PNC Capital Markets LLC          Financial Adviser
- Kensington Capital Advisors      Financial Products Adviser
- Chester Willcox & Saxbe LLP      General Counsel

Information provided by the entities retained by AMP and Hamilton, and Sawvel cost projections, are subject to change, and thus actual costs may vary from the cost estimates and assumptions used in this Report.

### **| APPROACH**

The approach to this assignment was to gather all relevant available information for the Project. This information included the existing FERC license and related documents, project capital cost estimates, historical operating and maintenance costs from Hamilton's experience operating Greenup and AMP's experience constructing and operating Belleville. AMP and Hamilton provided much of this information. Capital cost estimates were developed by AMP, Hamilton and MWH and were used to estimate debt service for debt incurred to finance Meldahl. Operation and maintenance costs for the Project were estimated by Sawvel and AMP. Operation and maintenance costs include insurance, taxes or payments in lieu of taxes, and payments to FERC and the U. S. Army Corps of Engineers (the "Corps").

### **| DESIGN ENGINEER**

Hamilton retained MWH after reviewing the qualifications of several design-engineering firms with hydroelectric experience. Hamilton's selection process evaluated the experience, cost, manpower and the overall ability to complete the work in the required time frames. MWH was selected by Hamilton to be the design engineer for the Meldahl Project. AMP has entered into an agreement with MWH for the Owner's Engineer services. MWH will be responsible to AMP

and Hamilton through the AMP/MWH Owner's Engineer Agreement. This agreement was signed in October 2009 and the cost of these services has been included in the Project capital cost.

MWH is the result of a merger in 2001 of two major water resources firms, Montgomery Watson and Harza Engineering Company. The combined company possesses a level of expertise in energy, infrastructure, hydropower, water and wastewater engineering that is recognized internationally. MWH is also the Owner's Engineer for AMP's, Cannelton, Smithland and Willow Island hydroelectric projects, also located on the Ohio River.

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### III. DESCRIPTION OF PROJECT

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#### **OVERVIEW OF THE PROJECT**

Meldahl will be owned by AMP through Meldahl, LLC, constructed and financed by AMP, and operated by Hamilton. AMP, is co-licensee of the FERC License for Meldahl (FERC Project No. 12667).

Under the Power Sales Contract, Hamilton will purchase approximately 54 MW of output from Meldahl and the other Participants will purchase approximately 51 MW. The Power Sales Contract obligates the Participants, including Hamilton, to pay amounts that reflect the debt service on the 2010 Bonds and any additional debt issued or incurred for the Project and the operating costs associated with the Project. The Meldahl Project is described in the following paragraphs.

#### **EXISTING FACILITIES**

The Meldahl Locks and Dam are located at Ohio River Mile 436.2, about 36 river miles upstream from Cincinnati, Ohio. The existing structures consist of a main lock, 1,200 feet long and 110 feet wide, and an auxiliary lock, 600 feet long and 110 feet wide at the northern end of a spillway 1,384 feet long. The spillway consists of twelve gates, each 100 feet long and 37 feet high, with intermediate piers each 14 feet wide and end piers 15 feet wide. Five of the twelve spillway gates were originally intended for either normal operation, raised, or lowering (submergible) operation, to pass water over the tops of the gates. For that reason, there is a gap between the concrete structure and the gate seals permitting the submergible motion. At the south end of the spillway, there is a concrete gravity overflow weir with a 310-foot long crest. The weir is immediately adjacent to the southern spillway pier. The crest of the weir is at elevation 487 feet, which is two feet above the normal upper pool level. A steel, sheet pile seepage cutoff wall extends from the upstream face of the weir about 300 feet farther, south toward the embankment of an existing railway. The Meldahl Project will be at the south, Kentucky, shore of the Ohio River, at the existing Captain Anthony Meldahl Locks and Dam. The location on the Ohio River of the Meldahl Locks and Dam is shown in Appendix A.

#### **Project Concept**

The proposed Meldahl Project will include an intake approach channel, a reinforced concrete powerhouse, and a tailrace channel. The powerhouse will house three horizontal 35 MW bulb-type turbine-generating units with an estimated FERC licensed total rated capacity of 105 megawatts. Transmission interconnection options are under consideration. Shorter transmission routes that have less social and environmental impacts are currently being considered and are

described later in this Report. As noted previously, the route is under evaluation and may be replaced with an alternate route.

## **Powerhouse**

The powerhouse will be a cast-in-place reinforced concrete structure founded on rock. The structure will be monolithic and about 260 feet long by 210 feet wide. The top of the powerhouse intake structure will be at elevation 490 feet, approximately three feet above the existing weir. The centerline of the unit distributors will be at elevation 420.0 feet. The powerhouse will be designed to be submerged during flood conditions. The powerhouse will support columns of a runway frame for an overhead powerhouse crane. The crane rails will be at elevation 544.0 feet, above the flood of record elevation of 518.0 feet. The crane will operate in the direction of flow permitting handling of the intake trash-racks, intake and draft tube bulkheads, the emergency closure gate, and the turbine-generator equipment via waterproof hatches in the roof.

Access to the powerhouse will be the existing paved road from Kentucky Highway 8, which crosses the railway tracks. No new railroad crossing will be constructed for this project. The existing road will be tied into the new access roads to be constructed including the roads servicing the powerhouse and temporary and permanent recreation facilities. Closure structures will be constructed to tie the powerhouse to the existing overflow weir and the south abutment. The closure structures will be designed and configured to conform to the geometry of the intake and tailrace channels, will be integrated with the existing dam cutoff, and will be founded on rock.

## **Excavation and Slopes**

Excavation for the powerhouse structure, intake channel and tailrace channel will extend into the rock foundation. Rock traps will be located immediately upstream of the intake and immediately downstream of the draft tube. Excavation and backfill will be used to stabilize the slopes and will be armored as required in the approach and tailrace channel. Final alignments and slopes will be determined after the physical hydraulic model study and stability analyses are completed. The approach channel entrance and the tailrace channel exit will be excavated by dredging, as they are located outside the proposed cofferdam. The remainder of the excavation including all of the rock excavation will be within the cofferdam area.

## **Intake and Tailrace Channels**

The design of the intake approach and tailrace channels will be determined in conjunction with the Corps so as to minimize the effect of the Project on navigation. The intake channel will be configured and designed for hydraulic efficiency. The tailrace channel will be configured and

designed to reduce discharge velocities in the channel and to minimize the need for additional erosion protection requirements. Hydraulic model studies are complete and the channel designs are being incorporated into the powerhouse design for the Meldahl Project.

### **Cofferdams**

Temporary upstream and downstream cofferdams will be required during construction of the Meldahl Project. The cofferdams will be earthen embankments with internal slurry trench cutoff walls to rock. The cofferdam will provide protection against floods with recurrence intervals equal to or less than 100 years. The cofferdam will be configured to enable continued operation of the Corps' facilities through the construction period. Cofferdam designs have been approved by the Corps and FERC and construction is underway. After powerhouse construction is complete, the cofferdams will be removed.

### **Corps Facilities to be Modified**

The only portion of the Corps' facilities to be modified is the sheet pile cutoff wall in the abutment. This will be removed and replaced by the closure structures, powerhouse, and a new cutoff wall extending into the abutment. All other structures, including the entirety of the existing overflow weir, will remain as is and not be modified by the construction of the Project.

### **Existing Pools and Water Levels**

The upstream navigation pool is maintained by the Corps at elevation 485.0 feet. At a recurrence interval of about 500 years, the Meldahl pool level will be about elevation 513.6 feet. At the 100 year recurrence interval, the pool level will be about 507.4 feet.

The downstream navigation pool is controlled by Markland Locks and Dam, about 95 river miles from the Meldahl site. The Corps maintains the Markland pool level at normal elevation 455.0 feet. The tailwater level increases with flow. During large flood events, the difference in water surface levels upstream and downstream from the Meldahl Locks and Dam will be a few feet or less, depending on the magnitude of the flood, as the Ohio River becomes one sloping stream rather than a series of discrete, nearly level, pools.

Maximum gross head at the site will be approximately 30 feet, though maximum output will occur at a gross head of approximately 25 feet. Friction and other hydraulic losses from the intake and tailrace channels, the trash-racks, the powerhouse intakes, the units, and the draft tubes must be deducted from the gross head.

The Meldahl Project will be operated as a run of the river installation and will not require the use of pool storage. The normal maximum surface area, gross storage and usable storage are therefore not relevant to the proposed design or operation.

### **Principal Equipment**

The Meldahl Project will have three horizontal bulb-type turbines directly connected to generators rated at approximately 38.9 MVA with a 0.9 power factor operating at 13.8 kV and delivering a FERC Licensed output of 35,000 kW. The annual net energy generation is estimated at an average of approximately 522,288 MWh per year. The bulb turbines will be horizontal shaft, double regulated Kaplan-type turbines with adjustable wicket gates. Emergency shutdown capability will be achieved by the operation of the adjustable wicket gates. The wicket gates will have built-in redundancy in the closing systems through hydraulically operated draft emergency closure gates that will close automatically should the generating unit trip off line.

Upstream stoplogs will be provided to permit dewatering of the units for maintenance service. The units will be sealed from tailwater when the draft tube gates are lowered, or when the draft tube stoplogs are installed. Trashracks will be located in front of each of the unit intakes. Trashrack bar spacing will be approximately 8.25 inches to limit the inflow of debris and larger objects into the water passages and turbines. A trash rake will be mounted on rails along the length of the intake to facilitate cleaning the racks.

In June 2008, an agreement was reached with Voith Hydro, the turbine-generator supplier for three hydro projects currently under development by AMP (Smithland, Cannelton and Willow Island), to also supply three turbines and generators for the Meldahl Project. The cost of the turbines and generators for Meldahl is \$122,980,000.

### **Transmission Interconnection**

A transmission line will be constructed to deliver power generated from the Meldahl site to a regional interconnected transmission network. The licensed transmission path is a single 138 kV transmission line connection from the powerhouse to a new switching station at a location adjacent to East Kentucky Power Cooperative's ("EKPC") Boone-Spurlock transmission line. After further review, AMP and Hamilton are concerned that the licensed transmission path will require a large amount of tree clearing and will be located in high value residential areas. AMP and Hamilton are currently evaluating other transmission interconnection options. The first option is a 6-mile 138 kV transmission line that does not enter Ohio or cross the Ohio River and would interconnect to MISO in the Duke Energy transmission zone. The second option is a 3-mile 138 kV transmission line that would cross the Ohio River and interconnect with PJM in the Dayton Power & Light transmission zone. Both options will require step-up transformers (138

kV to 345 kV). When an option is chosen, AMP and Hamilton will need to seek FERC approval to authorize the chosen option as the licensed transmission path.

FirstEnergy filed an application to consolidate its transmission assets into PJM on August 17, 2009. The FERC issued an order on December 17, 2009 accepting FirstEnergy's proposal to consolidate its operating companies and transmission assets in PJM. The proposed move from MISO to PJM is scheduled for June 1, 2011. On May 21, 2010 Duke Energy announced that it would move its Duke Energy Ohio and Kentucky operating companies from MISO to PJM. On June 25, 2010 Duke submitted a filing seeking FERC approval to withdraw Duke Energy Ohio and Kentucky from MISO and integrate the system into PJM effective January 1, 2012. FERC conditionally approved Duke's request to move to PJM on October 21, 2010. The proposed RTO realignments indicate that a majority of the AMP members in the project will be interconnected to the PJM system after Duke and First Energy consolidate their Ohio and Kentucky assets in PJM. Both proposed interconnection points being studied by MISO and PJM for Meldahl would be in the PJM system by the time Meldahl is operational or within a short time after Meldahl begins commercial operation.

### **Auxiliary Equipment**

Auxiliary mechanical equipment will be accessible via waterproof hatches in the roof of the facility and will include the overhead powerhouse crane, for handling of the intake trash-racks, intake and draft tube bulkheads, the emergency closure gate, and turbine-generator equipment. The overhead powerhouse crane contract for the Meldahl Hydro Project was issued to Morgan Engineering Company of Alliance, Ohio.

Auxiliary mechanical equipment within the powerhouse will include fire pumps and other pumps, separate air compressors for station air and the governor pressure oil systems, the equipment ancillary to the turbines and the governors, water strainers, oil systems, potable water and raw water systems, ventilating and air conditioning systems, fire protection systems, and elevators.

Clean oil, dirty oil, and oil centrifuging cleaning apparatus, spare parts, tools, necessary shops and miscellaneous equipment will be housed in the powerhouse. Piping systems will be embedded or exposed, as needed for the plant.

Sump pumps will be provided for station drainage and for dewatering the unit passages. At least two pumps will be provided for each sump, with water level monitors and controls. Station sump pump discharge lines will be routed to oil separators. All potential sources of oil-contaminated water, including drainage from water deluge and water spray fire protection, will be routed to the oil separators for separation, so as to prevent oil from being discharged to either



the intake or the tailrace channels. Sewage and domestic wastewater will be stored in an on-site tank that will be periodically serviced, trucked offsite, and disposed of in accordance with State of Kentucky requirements.

Auxiliary mechanical equipment, with the exception of the overhead crane as noted previously and the transformers, gates, trashracks and bulkheads, will be procured and installed by the general construction contractor using the design documents prepared by MWH and for the turbine-generator equipment, Voith. After taking competitive bids, AMP has entered into contract with Oregon Iron Works for the supply of the gate equipment.

Auxiliary electrical equipment will include the equipment ancillary to the generators, such as the voltage regulators and solid state exciters, generator circuit breakers, the segregated phase bus to the main step up transformers, the main step-up transformers and a GIS substation with one circuit breaker and five disconnecting switches, the high voltage switchgear, station service transformers/motors and motor-control centers for station auxiliaries, lighting inside and outside the powerhouse, grounding of the powerhouse and the equipment inside and outside the plant, control and annunciation equipment, communication equipment, a network for the 480-volt station service, and necessary protection and auxiliaries. In the event the plant must be isolated from outside electric power supply, station emergency electrical service will be supplied from a backup generator, which will be part of the Project. Direct current for control and metering systems will be supplied from a station battery system.

Auxiliary electrical equipment, except the main step-up transformer, will be procured and installed by the general construction contractor using the design documents prepared by MWH and Voith. Bids were taken for the main power step-up transformers on February 20, 2009. AMP has entered into contract with Iljin / Pan America Supply for the main power transformers.

### **Lands of the United States and Private Lands**

The Meldahl Project, except the transmission lines, will be substantially located on lands owned by the United States and administered by the Corps. A small parcel of private property immediately upstream of the site, approximately 31 acres in aggregate, has been acquired for use as a spoil disposal site. An agreement with the landowner is in place.

### **Useful Life**

The Meldahl Project is a long-term generating resource with a useful life in excess of 50 years from the beginning of commercial operation. Meldahl is expected to have a useful life through the end of the financing term and beyond. Run-of-river hydroelectric facilities can be unpredictable to the extent that one cannot know exactly when water flows will result in specific

energy generating levels. Meldahl is projected to generate an average of 57% of its maximum energy generation capability over its expected lifetime. Thus, the Meldahl Project is technically competitive with other Ohio River run-of-river hydroelectric plants such as Belleville and should provide a good source of energy to meet load requirements of the AMP members.

The Captain Anthony Meldahl Locks and Dam was constructed by the US Army and placed in service in 1964. The Meldahl Locks and Dam have a useful life of at least 100 years with proper maintenance. The Corps is responsible for maintaining the Meldahl Locks and Dam and is expected to maintain the structural integrity of the dam so as to not negatively impact the useful life of the Meldahl Project. Funding for maintaining the locks and dam is provided by the U.S. Treasury in accordance with the Water Resources Development Act of 1986.

Gross generation production numbers for Meldahl were estimated based on actual Ohio River flows for a period of 30 years. The period of October 1, 1975 to September 30, 2005 was selected for historical Ohio River flows. The Captain Meldahl Locks and Dam was built prior to this period. The total theoretical maximum potential energy was estimated at the Meldahl site. The estimate is based on the following data and assumptions:

- Estimated river flow as described above.
- Net head based on normal pool level minus tail water level as estimated using stage discharge curves obtained from the Corps for the site.
- Lockage and leakage losses through the existing gates at the dam of 3,000 cubic feet per second (“cfs”).
- Combined turbine and generator efficiency up to 93%.
- The results of the Voith Hydraulic Model Study.
- Station service and forced outages are not included.

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## IV. CURRENT PLANS FOR CONSTRUCTING, FINANCING, AND OPERATING THE PROJECT

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### **| SCHEDULE**

The Meldahl Project schedule at the time this Report was issued is as follows:

Start Land Clearing	Spring 2010 (underway)
Begin Cofferdam Construction	Summer 2010 (underway)
Acquire Turbine-Generator	Contract Awarded in March of 2009
Begin Project Construction	Contract award in Summer 2011 Completion estimated Spring 2014

The three units must be tested and synchronized to the electric grid before beginning commercial operation. AMP estimates the Project will begin commercial operation by July 15, 2014.

AMP planned for the development and construction of the Meldahl Project and three other AMP hydroelectric projects (Cannelton, Smithland and Willow Island) simultaneously. AMP and Hamilton bid larger construction packages and obtained the benefit of economy of scale because several similar pieces of equipment were purchased at the same time. According to AMP, this approach has resulted in a more attractive price proposal from manufacturers including the turbine-generator manufacturer (Voith).

This approach was used to procure the cranes, transformers, and gate equipment. Another benefit of combining equipment bid packages is the ability to share spare parts among all four plants and to decrease project-specific staff training.

This approach was applied to the project engineering design. The same MWH and AMP engineering staff are working simultaneously on all four sites with a goal of minimizing engineering costs as compared to designing each site independently.

### **| CONTRACTING, DESIGN AND CONSTRUCTION**

Figure 2 illustrates the contracts and contractual relationships among AMP, Hamilton, Meldahl, LLC, MWH and major contractors who will construct the Meldahl Project. MWH is the Owner's Engineer and design engineer for the Project. Thus, MWH reports to Meldahl, LLC, Hamilton and AMP. Several subcontractors are under the direction of MWH, including the

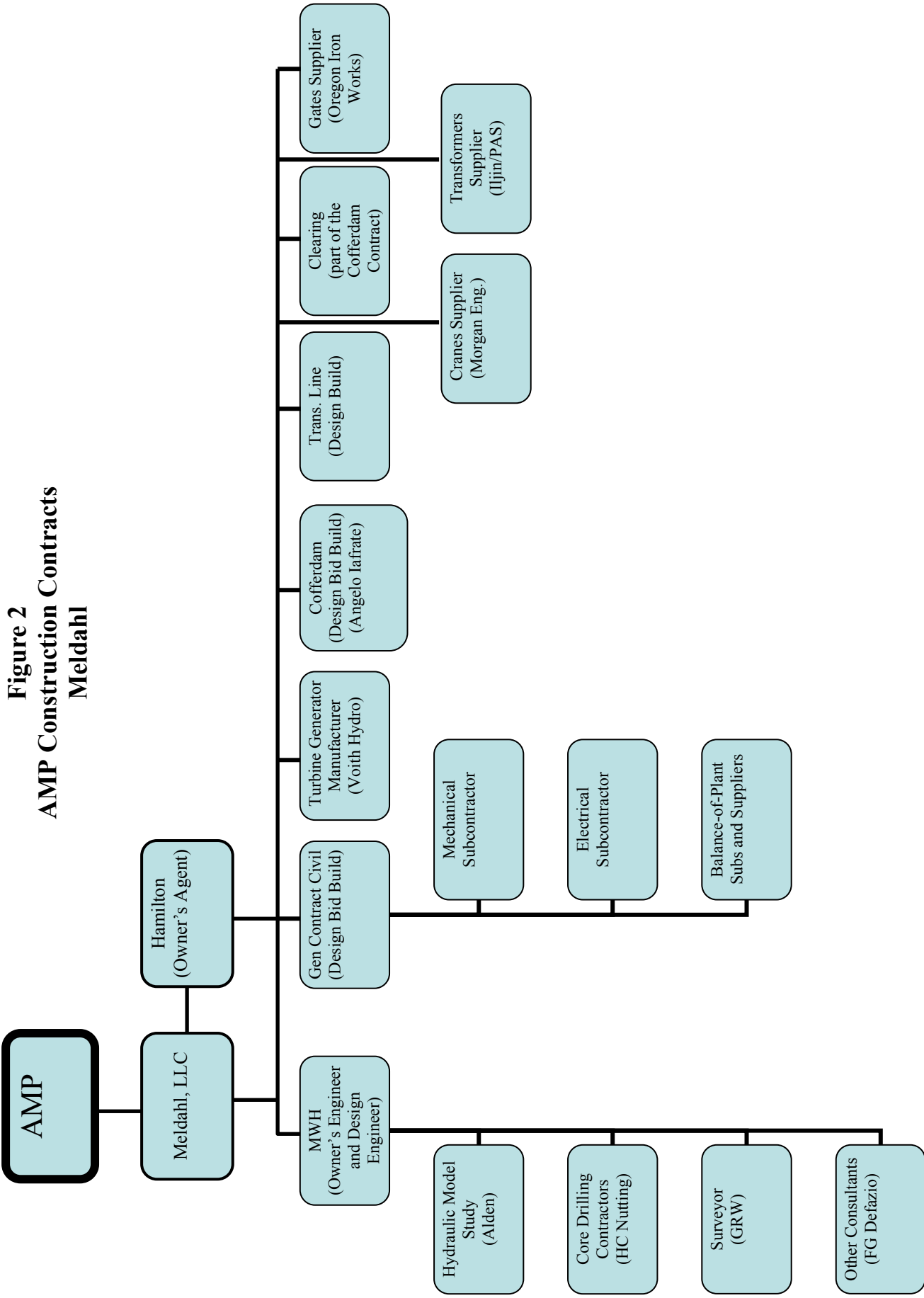
hydraulic model study consultants, surveyors, drilling contractors, and other consultants needed to assist MWH.

MWH will prepare bid documents that define the work in sufficient detail for bidding purposes. These documents will include instructions to bidders, bid forms, general and special conditions of contract, technical specifications, and plans to clearly describe the work. Equipment supply specifications for the turbine-generators, gates, cranes, and main power transformers for the Meldahl Project were issued as previously discussed in this Report.

AMP and Hamilton awarded the contract for the turbine-generator equipment to Voith of York, Pennsylvania. The contract award was for approximately \$123 million for the supply of all three turbines and generators for the Meldahl Project. Voith is designing the equipment and has procured the steel for the turbines and generators.

### ***Cofferdam and Excavation***

AMP has taken competitive bids and awarded the cofferdam and excavation contract to Angelo Iafrate Construction Company (Iafrate) out of Warren, Michigan. Iafrate will build the cofferdam and excavate the powerhouse to the foundation level in accord with the detailed design prepared by MWH. The powerhouse construction contract will be awarded after the cofferdam and powerhouse excavation are substantially complete. This enables AMP and Hamilton to more readily absorb and control delays from the cofferdam contract in the event differing conditions are encountered during the excavation. This also enables the powerhouse contractor to inspect the site before its work begins and accept the site in an “as is” condition.



### ***Powerhouse Construction***

The powerhouse construction contract will be let out for bid after cofferdam and excavation work is nearly completed. This contract will include the supply and installation of the balance of plant equipment and installation of the owner furnished turbine-generator, gate equipment, crane equipment and main power transformers. Much of the project design and equipment fabrication is in progress and pertinent information will be provided when the construction contractor prepares its bid. The construction contractor will be responsible for bringing all aspects of the plant together to form an operating generating facility and will have a lot of site specific information to prepare a more specific bid than if site work had not already begun. This contract is expected to be bid in December 2010 and awarded in mid 2011.

### ***Transmission Line***

The transmission line contract will be separate from the station construction contracts. The transmission line contractor will prepare the detailed design and build the transmission line. This contract is expected to be awarded in 2012.

### ***Prequalification, Bidding, and Award***

Prospective bidders for most large construction and equipment supply contracts will be subject to prequalification prior to submitting a bid. Firms with past relevant experience with AMP, Hamilton or MWH may be invited to pre-qualify. Other prospective bidders will be identified through an advertising process.

Bid documents have been and will be prepared for the purpose of providing a common basis for prospective contractors in preparing proposals and bid prices. This common basis will also facilitate fair and uniform bid evaluation. The bid documents will be as complete as reasonable and will include the contract documents and all drawings available at the time bids are solicited. Where necessary, the contract will include issuance of detailed construction drawings not included in the bid documents, subsequent to contract award.

The bid documents will include instructions to bidders, bid forms, contract and bond forms, general and supplementary contractual conditions, technical specifications, and bid drawings. The design and bid documents will be based on industry standard practices that are appropriate for the design, manufacturing and installation of hydroelectric equipment. Pre-bid meetings will be held for each bid package.

Bids will be opened publicly and evaluated to select the bidder that best satisfies Project requirements in accordance with AMP and MWH selection criteria. MWH will assist AMP and

Hamilton during negotiations with selected bidders. After prerequisites for contract execution are confirmed by MWH in consultation with AMP and Hamilton, AMP will award the contract. AMP and Hamilton will issue a notice to proceed and purchasing, fabrication and/or construction will commence after the contract is executed.

Equipment supply contracts will generally be fixed-price contracts with lump sum pay items. Increases or decreases in lump sum prices and the total contract price will require execution of a contract amendment.

Construction contracts will generally be fixed-price contracts with both lump sum and unit-priced items. Variations in actual versus estimated quantities for unit priced bid items will be adjusted at the appropriate unit prices specified in the contract. All increases or decreases in unit price or lump sum bid items will require execution of a contract modification.

### ***Bonding Requirements***

Bidders for all contracts will be required to furnish a bid bond or financial guarantee in the amount dependent on the type of contract to be awarded. Generally, a 10% bid bond will be required at bid time. Successful bidders will be required to furnish payment and performance bonds of 100% of the contract prices for the civil contracts and gates, cranes, and transformer contracts. A 50% performance bond threshold was required for the turbine-generator supply contract, and is consistent with common industry practices.

### ***Construction Insurance***

AMP has procured an Owner's Controlled Insurance Policy ("OCIP"). Through the OCIP AMP will provide General Liability, Employer's Liability, Workers Compensation Insurance and Excess Liability for enrolled contractors and enrolled subcontractors. In addition to the OCIP, AMP has procured the following additional owner provided coverage's: Builder's Risk and Project Specific Contractor's Pollution Liability Coverage. These insurance policies have been purchased to protect AMP, Hamilton and other Participants during the construction phase of the Meldahl Project. All Contractors and Subcontractors, whether enrolled in the OCIP or not, must participate in and adhere to the Owner's Site Specific Safety and Health Program Guidelines.

### ***Governing Law and Language; Approach Toward Disputes***

As a general rule, the governing law for all contracts will be the State of Ohio. Where appropriate, such as for labor and environmental regulations, the governing law of Ohio will be supplemented with federal and local requirements.

Dispute resolution procedures have been and will be established in the contract documents. It is expected that all disputes that arise during performance of the work will be resolved through

some method of mediation with the intention of avoiding litigation.

## **FINANCING PLAN**

The total financial requirement of the Meldahl Project is estimated at approximately \$685 million. The debt necessary to finance the Meldahl Project will be secured by the Meldahl Power Sales Contract with the Participants including Hamilton. The terms of the AMP-Hamilton Agreements provide that AMP is responsible for financing the Meldahl Project. AMP intends to finance the Project and capitalize interest during the construction period so that there is no rate impact on the Participants' retail rates prior to the scheduled in service date of the Meldahl Project.

### ***Tax Status***

The private letter rulings AMP has obtained from the Internal Revenue Service enable AMP to issue debt the interest on which is exempt from federal income tax or eligible for certain federal tax subsidies or credits. Access to low-cost capital is especially important in relatively high capital cost projects such as hydroelectric projects. AMP is subject to Ohio personal property and real estate taxes and may be subject to taxes in other states to the extent it owns property and operates projects in such states.

### ***Security Arrangement***

The primary security for the debt issued to finance the Project will be payments made by the Participants, in accordance with the terms of the Power Sales Contract. See the Official Statement for more information about, and a summary of certain provisions of, the Power Sales Contract. The Power Sales Contract provides AMP with flexibility to capitalize interest during construction of the Project, or, subject to the approval of the Participants Committee and the Project Management Committee, to begin making debt service payments and thus billing the Participants during the construction phase.

AMP will issue and secure Bonds under a Master Trust Indenture (the "Master Indenture" or "MTI" and as supplemented from time to time, the "Indenture"), with a corporate trustee (the "Trustee") to permanently finance the Project. Under the MTI, AMP would pledge for the payment and security of the Bonds its "Net Receipts" consisting of its "Gross Receipts" (primarily the payments owing by the Participants under the related Power Sales Contract), certain of its rights under the related Power Sales Contract and monies in the various subfunds and accounts created under the MTI and held by the Trustee, less certain operating expenses. Description of the provisions of the MTI and the various supplemental indentures, and a summary of certain provisions thereof, are contained in the Official Statement to which this Report is appended.



### ***Interim Financing***

AMP has access to a \$750 million revolving credit facility (the “Line of Credit”) with a syndicate of lenders led by JPMorgan Chase Bank, N.A that expires on September 24, 2012. The Line of Credit provides different types of short term lending options with different interest rate terms.

AMP may draw directly on the Line of Credit to pay expenses of the Project or it may obtain a letter of credit thereunder to support the issuance of tax-exempt commercial paper. Under its current commercial paper program, primarily intended to provide interim financing for the costs of its projects prior to permanent financing, AMP may have up to \$450 million in commercial paper outstanding at any time. As of September 15, 2010, AMP had not issued commercial paper for the Project.

As of December 3, 2010, AMP had drawn approximately \$116 Million on the Line of Credit to provide financing for the development costs (including the \$4.86 million payment owed to Hamilton for participation in Meldahl) and to make progress payments for the turbines for Meldahl during the period prior to issuance of the 2010 Bonds.

### ***Permanent Financing***

AMP intends to issue the 2010 Bonds to provide the bulk of the permanent financing for the Meldahl Project. Proceeds of the 2010 Bonds will be used to 1) repay amounts previously drawn on the Line of Credit to pay Project Costs, 2) fund the estimated remaining Project costs, 3) fund the Parity Common Debt Service Reserve Fund, 4) fund the Build American Bond (BAB) Federal Subsidy Special Reserves, 5) fund the Clean Renewable Energy Bond (CREB), Federal Subsidy Special Reserve, 6) fund capitalized interest through six months after the estimated in service date of the Project and 7) pay costs of issuance. See “PLAN OF FINANCE” in the Official Statement to which this Report is appended.

### ***Federal Interest Subsidies***

Included in the 2010A-D Bonds will be two series of bonds that will be eligible for Federal interest subsidies. The 2010E Bonds will also be eligible for a Federal interest subsidy. Both the 2010B Bonds and 2010E Bonds will be issued as “Federally Taxable – Issuer Subsidy – Build America Bonds” or BABs.” Under the terms of the applicable section of the Internal Revenue Code, AMP expects to receive from the U.S. Treasury a semi-annual payment (subsidy), on or before each scheduled interest payment date on the BABs, equal to 35% of the interest due on the BABs on such date. AMP will also issue another Series of 2010 Bonds (Series 2010C) as New Clean Renewable Energy Bonds (“Federally Taxable – Issuer Subsidy – New CREBs”).

AMP submitted a request for, and on October 23, 2009 received, an allocation of \$20 million new CREBs for the Meldahl Project. At the time of submission and allocation, the New CREBs were eligible for a 70% tax credit against the owner's taxable income. Under a recent amendment of the Internal Revenue Code, AMP has the option to issue the New CREBs (i) on terms that would permit the bondsholders to receive the 70% tax credit or (ii) to receive a federal subsidy for a portion of the interest on New CREBS equal to 70% of the applicable credit rate published by the U.S. Treasury Department. AMP has determined to issue the \$20 million New CREBs on terms that will entitle AMP to receive the federal interest subsidy.

Consistent with the provisions of AMP's Master Trust Indenture, Sawvel has assumed in this Report that AMP will take into account the federal interest subsidies payable on or before each interest payment date and, therefore, that AMP's bills to the Participants will take into account the federal interest subsidies and as well as the interest earnings on the Parity Common Debt Service Reserve and all of the Federal Subsidy Special Reserves. In addition, AMP in calculating its debt service for purposes of its rate covenant and funding of the Parity Common Debt Service Reserve Fund has assumed the full and timely receipt of the anticipated federal interest subsidies and reduced the amount of interest in such calculations accordingly. See "PLAN OF FINANCE" in the Official Statement to which this Report is Appendix H-1.

## **| PERMITTING AND FERC LICENSE COMPLIANCE**

AMP and Hamilton will be required to meet the environmental provisions set forth in the FERC License for the Meldahl Project. These provisions include erosion control, dissolved oxygen maintenance and monitoring, run-of-river operations and monitoring plan, endangered species and terrestrial resources, historical and cultural resources, site restoration, and recreational resources. Environmental concerns at the Meldahl site will require various plans and studies. All of these plans are in various stages of approval or implementation. These plans are not expected to materially affect the start of construction nor materially affect the cost of construction or operation, but delays and associated cost impacts are typically confronted in construction projects of this magnitude and complexity.

## **| ENVIRONMENTAL CONSIDERATIONS**

AMP and Hamilton will be required to comply with the environmental provisions set forth in the Project license. These issues include erosion control, dissolved oxygen maintenance and monitoring, run-of-river operations and monitoring plan, endangered species and terrestrial resources, historical and cultural resources, site restoration, and recreational resources. Among other license conditions and requirements, the Meldahl Project has the following License Articles regarding endangered or threatened species:

Article 406. Freshwater Mussel Survey and Protection. At least 90 days before any land-disturbing or land-clearing activities associated with project construction, the licensee shall file for Commission approval a freshwater mussel protection plan. The purpose of the protection plan is to ensure protection of the federally and state-listed fanshell mussel and the federally listed pink mussel, ring pink, orangefoot, pimpleback, and clubshell mussel, and the sheepnose mussel, a federal candidate species, that occur in habitat that could be affected by construction and operation of the project.

Article 407. Wetland Survey and Protection. At least 90 days before any land-disturbing or land-clearing activities associated with project construction, the licensee shall file for Commission approval a wetland protection plan. The purpose of the plan is to protect wetlands that could be affected by project construction, operation, and maintenance.

Article 408. Terrestrial Survey and Protection. At least 90 days before any land-disturbing or land-clearing activities associated with project construction, the licensee shall file for Commission approval terrestrial plant protection plan. The purpose of the protection plan is to ensure protection of Virginia mallow and any federally listed plants that could be affected by project construction, operation, and maintenance.

Article 409. Indiana Bat Protection Measures. At least 90 days before any land-disturbing or land-clearing activities associated with project construction, the licensee shall file for Commission approval an Indiana bat survey and protection plan. The purpose of the protection plan is to ensure protection of the Indiana Bat that occur in habitat that could be affected by construction and operation of the project.

Article 410. Raptor-Friendly Transmission Lines. The licensee shall design and construct raptor-friendly transmission lines in strict accordance with the industry standard guidelines set forth in *Suggested Practices for Raptor Protection on Power Lines: The State of the Art in 2006*, by Avian Power Line Interaction Committee (APLIC), Edison Electric Institute, and Raptor Research Foundation. Further, the licensee, after consulting with the U.S. Fish and Wildlife Service and the Kentucky Department of Fish and Wildlife Resources, and at least 90 days before the start of any land-disturbing or land-clearing activities associated with project construction, shall file for Commission approval a transmission line design plan that considers adequate separation of energized conductors, groundwires, and other metal hardware, adequate insulation, and any other measures necessary to protect raptors from electrocution hazards. Agency comments on the transmission line design plan shall be included in the filing. The licensee shall allow a minimum of 30 days for the agencies to comment and to make recommendations before filing the plan with the Commission. If the licensee does not adopt a

*recommendation, the filing shall include the licensee's reasons for not doing so, based on site-specific information.*

All of the above FERC license conditions require the Licensee to develop plans and measures to mitigate any impacts to these species.

### ***Mussel Studies***

EA Engineering and Science ("EA") and Mainstream Divers were retained to conduct a mussel survey for the downstream areas at the Meldahl site. Mussel surveys at the site were completed July 25, 2008, and no threatened or endangered species of mussels were found.

### ***Indiana Bat Survey***

EA was also retained to conduct the Indiana Bat Survey, and it completed the survey on September 4, 2008. The Survey reported that no presence of the Indiana bat was observed and there was little, to no, suitable roosting habitat for the Indiana bat within in the Project boundary and along the transmission corridor. In November 2008, the United States Fish and Wildlife service ("USFWS") issued a letter concurring with the conclusion that construction of the Meldahl Project should not have a significant impact on the Indiana bat species. In December 2008, the USFWS issued written confirmation that the seasonal window for land clearing activities included in Article 409 is no longer needed given the survey results. On May 21, 2009, Hamilton submitted the final survey results and compliance plan to FERC, including a request to remove the land clearing restriction from Article 409 in view of the study results and the concurrence of the USFWS. FERC approved Hamilton's request by order issued July 28, 2009.

### ***Wetland Survey and Protection***

EA was retained to develop a wetland delineation for the Meldahl site and the Project's proposed transmission corridor. The wetland delineation focused on three areas: Corps property, the proposed transmission line corridor, and the adjacent Lennox property. EA finished the wetland delineation in October 2008 and concluded that construction of the Meldahl Project and its transmission lines should not affect nearby wetlands.

### ***Toxic Substance Investigations***

As part of the Soil Erosion and Sediment Control Plan, testing was performed at the Meldahl site for the presence of heavy metals and other toxic substances. The results of the environmental testing indicated no evidence of significant soil contamination at the Meldahl site. The Meldahl site was not used for industrial purposes, it is not bordered by industrial entities, and no evidence of unofficial dumping has been found.

### ***State 401 Clean Water Act Certifications***

Kentucky State Clean Water Act 401 Certification (“401 Certification”) was issued for Meldahl in May 2009.

### ***FERC 404/408 Permits***

On April 9, 2010, AMP received the Corps Section 404 permit required for the commencement of construction of the Project. The 404 permit came from the Huntington District Corps. The permit application was submitted by Hamilton to the Corps in November 2008. As part of this 404 permitting process, an approval is required pursuant to 33 USC Section 408 for “taking possession of, use of, or injury to harbor and river improvements.” This 408 permit approval was received by AMP on March 19, 2010.

### ***FERC License***

#### ***Memorandum of Understanding / Memorandum of Agreement***

Hamilton obtained the FERC License in 2008 to enable it to construct and operate the Meldahl Project. The FERC License requires compliance with federal, state and local laws. These requirements are set forth in the FERC License for the site. Hamilton and AMP applied on February 26, 2010 for an amendment to become co-licensees of the Meldahl FERC License and the application was approved by FERC on June 18, 2010 [FERC 62.329].

As required by the FERC License issued for the Meldahl Project, a Memorandum of Understanding was executed with the Corps. This memorandum was signed by the Huntington District in March 2009 and sets forth site access and use provisions. A Memorandum of Agreement will be required between AMP and the Corps prior to the start of power plant operation. The Memorandum of Agreement will describe the detailed operation of the powerhouse acceptable to the Corps and shall specify any restriction needed to protect the primary purposes of the Corps locks and dam for navigation, recreation, water quality and flood control.

### ***Expiration of License***

The Meldahl Project was issued a FERC License with a term of 50 years from its effective date. The Project No. 12667 License has an effective date of June 25, 2008, so that License expires on June 24, 2058.

The final maturity of the 2010 Bonds is approximately 8 years prior to the expiration of the current Meldahl License. AMP and Hamilton expect to file an application for a new License for the Project when the current License expires. AMP and Hamilton expect that FERC will issue a new 30-year License for the Project shortly before the expiration of the current License.

## **INTERCONNECTION/TRANSMISSION SERVICE**

Generation interconnection requests were submitted to both PJM and MISO because of the Project's proximity to MISO and PJM. The preferred interconnection site will be determined after estimated interconnection costs are prepared for the potential interconnection sites. The PJM interconnection request was submitted on September 28, 2009. On January 29, 2010 PJM issued a preliminary Feasibility Study report that showed no network upgrades were necessary for the interconnection. The report, however, is only preliminary. PJM is waiting on the transmission owners in the area to provide their analysis of the interconnection with respect to facilities that are not modeled in the PJM systems.

In June 2010 PJM informed AMP that instead of waiting on the transmission owners to complete the Feasibility Study it directed the transmission owners to begin work on the System Impact Study and to report the results simultaneously. PJM continues to show that no network upgrades would be required, therefore, barring an issue noted by a transmission owner the only costs would be for the direct interconnection facilities.

After the system impact study is completed, the Meldahl Project will move on to the "facilities study" phase. Facilities studies involve detailed design work for the transmission interconnection facilities for the Project. In AMP's experience with two interconnection projects that have moved to the Interconnection Service Agreement phase it takes approximately 25 months for PJM to complete a facilities study. It should be noted that the estimates for the length of each phase of the studies are estimates and there are no defined deadlines for the RTO to complete any of the studies.

On September 29, 2009 AMP submitted a generator interconnection request to MISO for the Meldahl Project. MISO issued the Feasibility Study, which showed no injection constraints for the proposed interconnection on November 5, 2009. On August 8, 2010 MISO issued the draft System Impact Study report. The report noted a required MISO system network upgrade that would be required for the project to obtain capacity status. The estimated cost for the required upgrade is \$487,000. The report also included an estimate of \$9 million for the interconnection site work to be performed by Duke, the owner of the transmission to which the plant would interconnect.

Although one proposed interconnection site is in PJM and one is in MISO and the respective RTOs are evaluating the interconnection site within their system, it appears ultimately either interconnection site will be in the PJM system. On October 21, 2010 FERC conditionally approved the move of Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. (collectively referred to as "Duke") from MISO to PJM. It is anticipated that the move will occur sometime on January 1, 2012. Until then, the two interconnection requests will proceed simultaneously

under the two RTOs' interconnection process rules. Definitive study results necessary to select one interconnection site should be available prior to the Duke integration into PJM. If the PJM site is selected, the project would continue to use the PJM process. If the MISO site is selected the MISO process would be used until Duke switches from MISO to PJM. At that time, there would be a transition process to move from the MISO interconnection process to the PJM interconnection process. AMP will be a participant in the Duke integration process to mitigate any potential impacts on the Meldahl interconnection.

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## V. PROJECTED COSTS OF THE PROJECT

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The purpose of this section is to estimate the total financial requirement of the Meldahl Project and to project annual ownership and operating costs, such as annual operation and maintenance costs and debt service. The cost estimate for the Project includes the cost to construct and finance the Project, including capitalized interest during construction.

### **PROJECT COSTS**

The construction cost estimate for the Meldahl Project was derived from preliminary engineering layouts and work performed by MWH for other similar projects, both past and ongoing, including actual costs currently known for Cannelton, Smithland and Willow Island hydroelectric projects. Quantities of major construction materials and earthwork were used as a basis for estimating the probable civil works cost. Estimates for major equipment were based on MWH internal files of bid prices for other projects, actual bid prices received to date for the Meldahl equipment, and indications furnished by manufacturers. Contracts for materials and construction have been executed for approximately 46% of the capital costs of the Meldahl Project including the cost of the turbine-generators.

#### ***Capital Cost***

The current estimated capital cost, including administrative, insurance and legal costs, is approximately \$504 million for the Meldahl Project. These costs will continue to be refined as the design and equipment procurement activities progress. The estimated cost of the Project is summarized in Table 2, Estimated Meldahl Project Capital Cost and Construction Drawdown.

Several assumptions were incorporated into the cost estimates. The key assumptions are described below:

1. The costs for civil features, such as the approach and tailrace channels, cofferdams, intakes, waterways, powerhouse and access features have been based on estimation of the quantities of excavation and concrete, and application of appropriate unit prices as computed or estimated for similar work at other projects.
2. The unit prices used for each major item in the cost estimate are intended to represent bid prices, including overhead and profit, for work in the Kentucky and southern Ohio areas.
3. Mobilization costs are included in the estimate and are intended to account for the costs associated with transportation of the contractor's required equipment to the site, set-up of offices, camps, power supply and other temporary on-site facilities.



4. Contingencies are included in the construction cost estimate in amounts commensurate with the level of information available and the amount of design that has been performed to date. The contingency amounts are intended to be part of the estimated cost of the Project, as they cover the items that are not specifically accounted for, given the level of detail in this estimate, and to cover the cost of events that could reasonably be expected to occur.

The estimated cost shown in Table 2 is the total estimated cost of the construction and equipment supply/installation components of the Meldahl Project. Engineering costs for licensing support, design and construction services and owners' internal administrative/project management costs are included. Interest during construction and financing costs are not included in Table 2.

**Table 2**  
**Estimated Meldahl Capital Cost and Construction Drawdown**  
**(2014\$)**  
**AMP**

Capital Cost by Contract Item		% of Expenditures <sup>(1)</sup>														
Description	Total w/ Escalation <sup>(2)</sup>	2008	2009	2010	2011	2012	2013	2014	2008	2009	2010	2011	2012	2013	2014	Total
Land and Land Rights	3,550,330	1%	-	44%	39%	15%	-	-	30,500	-	1,576,000	1,400,000	543,830	-	-	3,550,330
General Construction	220,478,604	-	-	-	14%	39%	37%	10%	-	-	-	30,600,000	85,200,000	82,026,000	22,652,604	220,478,604
Cofferdam and Excavation	26,589,648	-	-0.02%	50%	50%	-	-	-	-	(6,600)	13,363,124	13,233,124	-	-	-	26,589,648
Turbine Generator Equipment	129,129,000	-	10%	37%	26%	18%	4%	5%	-	12,273,146	47,501,619	33,739,873	23,237,045	5,665,951	6,711,366	129,129,000
Generator Step Up Transformers	3,015,151	-	-	45%	43%	-	-	12%	-	-	1,357,882	1,300,562	-	-	356,707	3,015,151
Cranes	3,698,205	-	-	29%	24%	43%	5%	-	-	-	1,058,400	882,000	1,581,405	176,400	-	3,698,205
Gates, Bulkheads and Trashracks	19,240,508	-	-	49%	33%	3%	15%	-	-	-	9,495,778	6,359,467	561,520	2,823,743	-	19,240,508
Transmission Line	24,115,500	-	-	-	-	17%	83%	-	-	-	-	-	4,098,442	20,017,058	-	24,115,500
Subtotal	429,816,946								30,500	12,266,546	74,352,803	87,515,026	115,222,242	110,709,152	29,720,677	429,816,946
Admin, Insurance and Legal	27,924,830	4%	12%	40%	13%	14%	10%	6%	1,197,482	3,237,119	11,141,269	3,750,020	4,002,300	2,905,136	1,691,503	27,924,830
Meldahl Participation Payment	4,860,000	50%	-	50%	-	-	-	-	2,430,000	-	2,430,000	-	-	-	-	4,860,000
Eng and Const. Mgmt. w/ Hydraulic Model	30,383,549	2%	11%	18%	21%	22%	21%	6%	579,957	3,250,922	5,364,208	6,407,238	6,610,835	6,407,137	1,763,251	30,383,549
Interest on LOC	1,047,093	2%	16%	82%	-	-	-	-	18,320	166,316	862,457	-	-	-	-	1,047,093
Collateral Trust Funds	1,841,013	-	-	52%	48%	-	-	-	-	-	957,861	883,152	-	-	-	1,841,013
Contingency	8,504,542	0%	0.04%	4%	36%	18%	26%	16%	19	3,229	312,813	3,072,843	1,548,156	2,187,895	1,379,586	8,504,542
Total Capital Costs w/ Contingency	495,873,431							Total	4,256,278	18,924,132	95,421,412	101,628,280	127,383,534	122,209,320	34,555,017	504,377,973
								Percentage of Total	1%	4%	19%	20%	25%	24%	7%	100%

<sup>(1)</sup> Drawdown provided by AMP.

<sup>(2)</sup> Escalated to year of expenditure. Capital cost estimate provided by AMP September 13, 2010.

### ***License Acquisition Cost***

As set forth in the Meldahl-Greenup Participation Agreement discussed earlier in this Report, AMP was required to pay a participation payment of \$4.86 million to Hamilton to become a co-licensee of the Meldahl FERC License. AMP drew upon its Line of Credit and paid half of this amount in March 2009 on execution of the AMP-Hamilton Agreements, and the balance in October 2010 following receipt of the FERC order approving the amendment to the Meldahl License to add AMP as a co-licensee. The AMP-Hamilton Agreements and the Power Sales Contract provide the participation payment will be recovered from Participants other than Hamilton.

### ***Comments of Project Cost Variability***

Estimates are often characterized as Class 1 to 5 when using the Association for the Advancement of Cost Engineering International (“AACEI”) Recommended Practice No. 18R-97, Cost Estimate Classification System, where Class 1 and 2 estimates are based on very detailed engineering (after final design or during the construction phase to evaluate claims), typically involving thousands of line items. Class 5 estimates, on the other hand, are generally prepared based on very limited information, and subsequently have wide accuracy ranges.

The capital cost estimates prepared by MWH and presented in this Report are considered to be Class 3 estimates. For these types of estimates, engineering is typically from 10% to 40% complete and are typically used to support full project funding requests and become the first of the project phase “control estimates” against which all actual costs and resources will be monitored for variations to the budget. They are used as the project budget until replaced by more detailed estimates. In many owner organizations, a Class 3 estimate may be the last estimate required and could form the only basis for cost/schedule control. Typical accuracy ranges for Class 3 estimates are -10% to -20% on the low side, and +10% to +30% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances; however, since over half of the anticipated costs have been realized in actual bids, it is anticipated that the ranges noted will be sufficient.

The costs of procuring equipment and constructing facilities have and will continue to be affected by market conditions, contracting methods, contract and insurance conditions imposed by AMP, banks or lending agencies, permitting agencies, risk factors that may deviate from the conditions anticipated at the time this Report was prepared, and other factors outside of AMP’s control.

### ***Financing Requirements***

Permanent financing in the form of the fixed rate, long-term 2010 Bonds will refund the interim debt that was issued during the construction period. Permanent financing as projected assumes the issuance of the 2010 Bonds for the Meldahl Project as described under “Financing Plan – Permanent Financing” in Section IV. The Meldahl Project is projected to begin commercial operation by July 15, 2014. Table 3 shows the estimated total financial requirement for the Meldahl Project is \$685,365,243. For purposes of this Report, it was assumed, based on advice from AMP, that the 2010 Bonds would have a final maturity of 2050 and a long-term net average borrowing rate of 4.9%. Actual financing could vary from this assumption and, since debt service accounts on average for approximately 84% of the annual cost of power from the Project, could cause the projected cost of power from the Meldahl Project to vary from the projections in this Report.

### **EXPECTED USEFUL LIFE**

A hydroelectric generating facility consists of civil works and electro-mechanical equipment. It is generally expected that the useful life of the civil works would exceed 50 years. Electro-mechanical equipment typically has a useful lifetime in excess of 30 years with normal maintenance after which time such equipment would require additional improvements to extend its useful life. The locks and dam will be maintained by the Corps and should not impact the useful life of the Meldahl Project.

**Table 3**  
**Meldahl Financial Requirement and Debt Service<sup>(1)</sup>**  
**(2010\$)**  
**AMP**

<b>Expense</b>	<b>(\$)</b>
Deposit to Project Fund <sup>(2)</sup>	501,704,090
BAB Subsidy Reserve	8,062,526
New CREB Subsidy Reserve	378,000
Deposit to Debt Service Reserve Fund	41,229,028
BAB & CREB Capitalized Interest to 7/15/2014 (in service) <sup>(3)</sup>	103,009,276
BAB & CREB Capitalized Interest from 7/15/2014 to 1/15/2015 <sup>(3)</sup>	15,079,723
Non-BAB Capitalized Interest through 1/15/2015	8,534,382
Cost of Issuance and Additional Funds	7,368,218
<b>Total Financial Requirement</b>	<b>685,365,243</b>
<b>(\$/kW)</b>	<b>6,527</b>
<b>Average Annual Net Debt Service<sup>(4)</sup></b>	<b>40,637,777</b>
<b>(\$/kW-month)<sup>(5)</sup></b>	<b>32.25</b>

<sup>(1)</sup> Long term financing calculations prepared by Wells Fargo Securities (JGP) December 2, 2010 using a net average all-in borrowing rate of approximately 4.9% and a final maturity of 2050. Includes \$4,860,000 for the Meldahl Participation Payment.

<sup>(2)</sup> Includes interest costs on short-term financing prior to permanent financing, the cost of the collateral trust funds, all cost of constructing the Project and approximately \$2.7 million of interest earnings on the Project Fund through July 1, 2014.

<sup>(3)</sup> July 15, 2014 is the projected in service date of the Project.

<sup>(4)</sup> Net of Federal Interest Subsidies and interest earnings on Debt Service Reserve Fund and Federal Subsidy Special Reserves.

<sup>(5)</sup> Capacity is 105,000 kW.

## **| OPERATING CHARACTERISTICS**

The Meldahl Project will be operated as a run-of-river generating plant. The energy generation profile of a run-of-river plant is dependent on precipitation and flow from streams that feed into the Ohio River and the actions of the local lock master. Thus, when and how much energy that is available from the Project is not precisely predictable by the operator over the life of the Project. Energy can be predicted and scheduled a day in advance. The Project's capacity factor is projected to average 57% on an annual basis and occasionally operate at higher capacity factors from month to month.

The Belleville Hydroelectric Plant has been operated for 10 years by AMP in a similar manner as the Project is expected to be operated. However, Belleville is supplemented by energy that is purchased from the energy market to provide a predictable energy supply profile to its participants. Many changes have occurred in the wholesale electric market since 1999 that have changed the approach to supplying energy from the Project. Most of the Participants are located in the PJM RTO and in MISO and thus purchase energy on an hourly basis from these respective energy markets. Because energy is readily available from the market on an hourly basis at changing prices that can include congestion costs, the Participants' energy requirements will be met by energy purchased at their specific locations on the power grid and their shares of energy generated at the Project will be sold to MISO or PJM at the hourly energy prices at the Project location.

### ***Operation and Maintenance Plan***

As explained previously, the Project is a run-of-the-river hydroelectric power plant. Fluctuations in the upstream pool elevation will be minimized and energy production will be affected by the Corps. The Project will be designed and operated in such a manner as to avoid or minimize adverse impacts on navigation, water quality and aquatic resources in the Ohio River.

For purposes of estimating operating expenses, and based on Hamilton's experience in operating Greenup, it was assumed that the Meldahl Project would be staffed with twelve employees and one full-time contract maintenance employee.

### ***Operation and Maintenance Expenses***

Total annual operating costs were projected based on historical Greenup operating costs and estimates provided by AMP. The estimated commercial operation date of Meldahl is July 15, 2014 such that half of the projected annual operation and maintenance costs for Meldahl will be incurred in 2014.

Operation and maintenance expenses, including interim replacements, insurance, administrative and general expenses, FERC annual charges, taxes and the overhead adder for a full year of operation are estimated at approximately \$6.2 million in 2015 for the Project and were generally escalated at 3% annually. Tables 4 and 5, Projected Meldahl Operating Results summarize operating expenses for the Project.

## **ESTIMATED ANNUAL COSTS**

The Meldahl Project is estimated to begin commercial operation by July 15, 2014. The projected annual cost of Meldahl to Hamilton is shown in Table 4, Projected Meldahl Operating Results for Hamilton. The annual cost to Hamilton of the Meldahl Project is estimated at approximately \$25,200,000 (\$93.70/MWh) in 2015 increasing to \$25,700,000 (\$95.80/MWh) in 2038.

The projected annual cost of Meldahl to the participants other than Hamilton is shown in Table 5, Projected Meldahl Operating Results for Participants Other than Hamilton. The annual cost to participants other than Hamilton of the Meldahl Project is estimated at approximately \$24,200,000 (\$95.40/MWh) in 2015 increasing to \$24,700,000 (\$97.40/MWh) in 2038.

**Table 4**  
**Projected Meldahl Operating Results for Hamilton**  
**AMP**

		2014 <sup>(20)</sup>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	<b>Revenues (\$000)</b>													
1	Participant Revenue <sup>(1)</sup>	3,667	25,177	23,816	24,015	24,075	24,136	24,200	24,265	24,333	24,402	24,473	24,547	24,623
2	Transfers from IR Fund <sup>(2)</sup>	-	2,095	1,960	1,813	1,805	1,797	1,789	1,781	1,773	1,764	1,755	1,746	1,736
3	<b>Total Revenue (\$000) <sup>(3)</sup></b>	<b>3,667</b>	<b>27,272</b>	<b>25,777</b>	<b>25,828</b>	<b>25,880</b>	<b>25,934</b>	<b>25,989</b>	<b>26,047</b>	<b>26,105</b>	<b>26,166</b>	<b>26,228</b>	<b>26,293</b>	<b>26,359</b>
	<b>Operating Expenses (\$000)</b>													
4	Operation and Maintenance <sup>(4)</sup>	428	882	909	936	964	993	1,023	1,053	1,085	1,117	1,151	1,185	1,221
5	Administrative and General <sup>(4)</sup>	83	171	176	181	187	192	198	204	210	216	223	229	236
6	Insurance, License Fees and Taxes	805	1,619	1,628	1,638	1,648	1,658	1,668	1,679	1,690	1,701	1,713	1,725	1,737
7	Transmission Charges <sup>(5)</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Meldahl Overhead Adder <sup>(6)</sup>	134	277	285	294	302	311	321	330	340	350	361	372	383
9	<b>Total Operating Expenses (\$000)</b>	<b>1,451</b>	<b>2,949</b>	<b>2,998</b>	<b>3,048</b>	<b>3,100</b>	<b>3,154</b>	<b>3,209</b>	<b>3,266</b>	<b>3,325</b>	<b>3,385</b>	<b>3,447</b>	<b>3,511</b>	<b>3,577</b>
10	Net Available <sup>(7)</sup>	2,216	24,323	22,779	22,779	22,780	22,780	22,780	22,780	22,781	22,781	22,781	22,781	22,782
11	Net Debt Service Requirement <sup>(8)</sup>	-	22,101	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697
12	Debt Service Coverage (%) <sup>(9)</sup>	-	110	110	110	110	110	110	110	110	110	110	110	110
13	Interim Replacements (IR) Deposits <sup>(10)</sup>	2,210	2,210	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070
14	Interim Replacements Cost <sup>(11)</sup>	115	237	244	252	259	267	275	283	292	301	310	319	328
15	Funds to be Transferred to General Subfund <sup>(12)</sup>	2,095	1,960	1,813	1,805	1,797	1,789	1,781	1,773	1,764	1,755	1,746	1,736	1,726
16	Deposit to Working Capital Reserve Account <sup>(13)</sup>	6	12	12	13	13	13	13	14	14	14	14	15	15
17	<b>Total Revenue Requirement (\$000) <sup>(14)</sup></b>	<b>3,667</b>	<b>27,272</b>	<b>25,777</b>	<b>25,828</b>	<b>25,880</b>	<b>25,934</b>	<b>25,989</b>	<b>26,047</b>	<b>26,105</b>	<b>26,166</b>	<b>26,228</b>	<b>26,293</b>	<b>26,359</b>
	<b>Total Project Cost</b>													
18	Net Cost to Hamilton <sup>(15)</sup>	3,667	25,177	23,816	24,015	24,075	24,136	24,200	24,265	24,333	24,402	24,473	24,547	24,623
19	Net Capacity (MW)	54	54	54	54	54	54	54	54	54	54	54	54	54
20	Gross Energy (MWh)	143,486	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971
21	Less: 4% Station Service (MWh)	5,739	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479
22	Less: 2.5% Transmission Losses (MWh) <sup>(16)</sup>	3,444	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887
23	Net Energy (MWh) <sup>(17)</sup>	134,303	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605
24	Capacity Factor (%)	57	57	57	57	57	57	57	57	57	57	57	57	57
25	Total Cost to Hamilton (\$/kW-month) <sup>(18)</sup>	11.32	38.85	36.75	37.06	37.15	37.25	37.35	37.45	37.55	37.66	37.77	37.88	38.00
26	<b>Total Cost to Hamilton (\$/MWh) <sup>(19)</sup></b>	<b>27.30</b>	<b>93.73</b>	<b>88.67</b>	<b>89.41</b>	<b>89.63</b>	<b>89.86</b>	<b>90.09</b>	<b>90.34</b>	<b>90.59</b>	<b>90.85</b>	<b>91.11</b>	<b>91.39</b>	<b>91.67</b>



**Table 4**  
**Projected Meldahl Operating Results for Hamilton**  
**AMP**

	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
<b>Revenues (\$000)</b>												
1 Participant Revenue <sup>(1)</sup>	24,701	24,781	24,864	24,950	25,037	25,128	25,221	25,317	25,416	25,518	25,623	25,731
2 Transfers from IR Fund <sup>(2)</sup>	1,726	1,716	1,706	1,695	1,684	1,672	1,661	1,649	1,636	1,623	1,610	1,596
3 <b>Total Revenue (\$000) <sup>(3)</sup></b>	<b>26,427</b>	<b>26,498</b>	<b>26,570</b>	<b>26,645</b>	<b>26,721</b>	<b>26,800</b>	<b>26,882</b>	<b>26,966</b>	<b>27,052</b>	<b>27,141</b>	<b>27,233</b>	<b>27,328</b>
<b>Operating Expenses (\$000)</b>												
4 Operation and Maintenance <sup>(4)</sup>	1,258	1,295	1,334	1,374	1,415	1,458	1,502	1,547	1,593	1,641	1,690	1,741
5 Administrative and General <sup>(4)</sup>	243	251	258	266	274	282	291	299	308	318	327	337
6 Insurance, License Fees and Taxes	1,750	1,763	1,777	1,791	1,805	1,820	1,835	1,851	1,867	1,883	1,901	1,918
7 Transmission Charges <sup>(5)</sup>	-	-	-	-	-	-	-	-	-	-	-	-
8 Meldahl Overhead Adder <sup>(6)</sup>	394	406	418	431	444	457	471	485	500	515	530	546
9 <b>Total Operating Expenses (\$000)</b>	<b>3,645</b>	<b>3,715</b>	<b>3,788</b>	<b>3,862</b>	<b>3,938</b>	<b>4,017</b>	<b>4,098</b>	<b>4,182</b>	<b>4,268</b>	<b>4,357</b>	<b>4,448</b>	<b>4,542</b>
10 Net Available <sup>(7)</sup>	22,782	22,782	22,782	22,783	22,783	22,783	22,784	22,784	22,784	22,785	22,785	22,786
11 Net Debt Service Requirement <sup>(8)</sup>	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697	20,697
12 Debt Service Coverage (%) <sup>(9)</sup>	110	110	110	110	110	110	110	110	110	110	110	110
13 Interim Replacements (IR) Deposits <sup>(10)</sup>	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070	2,070
14 Interim Replacements Cost <sup>(11)</sup>	338	348	359	370	381	392	404	416	429	441	455	468
15 Funds to be Transferred to General Subfund <sup>(12)</sup>	1,716	1,706	1,695	1,684	1,672	1,661	1,649	1,636	1,623	1,610	1,596	1,582
16 Deposit to Working Capital Reserve Account <sup>(13)</sup>	15	15	16	16	16	17	17	17	18	18	19	19
17 <b>Total Revenue Requirement (\$000) <sup>(14)</sup></b>	<b>26,427</b>	<b>26,498</b>	<b>26,570</b>	<b>26,645</b>	<b>26,721</b>	<b>26,800</b>	<b>26,882</b>	<b>26,966</b>	<b>27,052</b>	<b>27,141</b>	<b>27,233</b>	<b>27,328</b>
<b>Total Project Cost</b>												
18 Net Cost to Hamilton <sup>(15)</sup>	24,701	24,781	24,864	24,950	25,037	25,128	25,221	25,317	25,416	25,518	25,623	25,731
19 Net Capacity (MW)	54	54	54	54	54	54	54	54	54	54	54	54
20 Gross Energy (MWh)	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971	286,971
21 Less: 4% Station Service (MWh)	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479	11,479
22 Less: 2.5% Transmission Losses (MWh) <sup>(16)</sup>	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887	6,887
23 Net Energy (MWh) <sup>(17)</sup>	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605	268,605
24 Capacity Factor (%)	57	57	57	57	57	57	57	57	57	57	57	57
25 Total Cost to Hamilton (\$/kW-month) <sup>(18)</sup>	38.12	38.24	38.37	38.50	38.64	38.78	38.92	39.07	39.22	39.38	39.54	39.71
26 <b>Total Cost to Hamilton (\$/MWh) <sup>(19)</sup></b>	<b>91.96</b>	<b>92.26</b>	<b>92.57</b>	<b>92.89</b>	<b>93.21</b>	<b>93.55</b>	<b>93.90</b>	<b>94.25</b>	<b>94.62</b>	<b>95.00</b>	<b>95.39</b>	<b>95.80</b>

**Table 4**  
**Projected Meldahl Operating Results for Hamilton**  
**AMP**

**Footnotes:**

- <sup>(1)</sup> Line 3 minus Line 2.
- <sup>(2)</sup> From Line 15.
- <sup>(3)</sup> Equal to Line 17, Total Revenue Requirement.
- <sup>(4)</sup> Estimated based on actual expenses of the Greenup Hydroelectric Plant. Escalated 3% annually.
- <sup>(5)</sup> Delivery Point is the Project interconnection with PJM. All transmission and ancillary service charges to delivery power from the Project interconnection to the Secondary Point of Delivery (Participant point of delivery) will be charged to the participant (Hamilton).
- <sup>(6)</sup> \$1.00/MWh in 2014 escalated 3% annually. See "AMP, Hamilton and Meldahl, LLC" Agreement in Section I for a description of the Meldahl Overhead Adder.
- <sup>(7)</sup> Line 3, Total Revenue minus line 9, Total Operating Expenses.
- <sup>(8)</sup> Net of Federal Interest Subsidies and interest earnings on Debt Service Reserve Fund and Federal Subsidy Special Reserves. 2015 Net Debt Service Requirement is Equal to Payments Due from February 15, 2015 through and including February 15, 2016 Principal and Interest Payment. Does not include the cost of repayment of the \$4.86 million Meldahl Participation Payment.
- <sup>(9)</sup> Line 10, Net Available divided by Line 11, Net Debt Service Requirement multiplied by 100.
- <sup>(10)</sup> Line 11, Net Debt Service Requirement multiplied by 10%. 2015 Net Debt Service Requirement used to calculate 2014.
- <sup>(11)</sup> 0.25% of initial cost of electrical and mechanical equipment escalated 3% annually.
- <sup>(12)</sup> Line 13, Interim Replacements (IR) Deposits minus Line 14, Interim Replacement Costs.
- <sup>(13)</sup> Line 9, Operating Expenses divided by 12 months and multiplied by 5%.
- <sup>(14)</sup> Sum of Lines 9, 11, 13 and 16.
- <sup>(15)</sup> From Line 1, Participant Revenue.
- <sup>(16)</sup> 2.5% of the difference of Line 20, Gross Energy and Line 21, Station Service.
- <sup>(17)</sup> Line 20, Gross Energy minus Line 21 and Line 22.
- <sup>(18)</sup> Line 18, Net Cost to Hamilton divided by Line 19, Net Capacity (MW) multiplied by 1,000 and divided by 12 months.
- <sup>(19)</sup> Line 18, Net Cost to Hamilton divided by Line 23, Net Energy (MWh) and multiplied by 1,000.
- <sup>(20)</sup> Estimated in-service date is July 15, 2014 (approximately 6 months of operation in 2014).

**Table 5**  
**Projected Meldahl Operating Results for Participants Other than Hamilton**  
**AMP**

		2014 <sup>(20)</sup>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	<b>Revenues (\$000)</b>													
1	Participant Revenue <sup>(1)</sup>	3,505	24,198	22,884	23,074	23,131	23,189	23,249	23,311	23,374	23,440	23,508	23,577	23,649
2	Transfers from IR Fund <sup>(2)</sup>	-	2,021	1,894	1,751	1,744	1,737	1,729	1,722	1,714	1,705	1,697	1,688	1,679
3	<b>Total Revenue (\$000) <sup>(3)</sup></b>	<b>3,505</b>	<b>26,219</b>	<b>24,778</b>	<b>24,826</b>	<b>24,875</b>	<b>24,926</b>	<b>24,979</b>	<b>25,033</b>	<b>25,088</b>	<b>25,145</b>	<b>25,204</b>	<b>25,265</b>	<b>25,328</b>
	<b>Operating Expenses (\$000)</b>													
4	Operation and Maintenance <sup>(4)</sup>	404	833	858	884	910	938	966	995	1,025	1,055	1,087	1,120	1,153
5	Administrative and General <sup>(4)</sup>	78	161	166	171	176	181	187	193	198	204	210	217	223
6	Insurance, License Fees and Taxes	760	1,529	1,538	1,547	1,556	1,566	1,575	1,586	1,596	1,607	1,618	1,629	1,641
7	Transmission Charges <sup>(5)</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Meldahl Overhead Adder <sup>(6)</sup>	127	261	269	277	286	294	303	312	321	331	341	351	362
9	<b>Total Operating Expenses (\$000)</b>	<b>1,370</b>	<b>2,785</b>	<b>2,831</b>	<b>2,879</b>	<b>2,928</b>	<b>2,979</b>	<b>3,031</b>	<b>3,085</b>	<b>3,140</b>	<b>3,197</b>	<b>3,256</b>	<b>3,316</b>	<b>3,379</b>
10	Net Available <sup>(7)</sup>	2,135	23,434	21,947	21,947	21,947	21,947	21,948	21,948	21,948	21,948	21,948	21,949	21,949
11	Net Debt Service Requirement <sup>(8)</sup>	-	21,293	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941
12	Debt Service Coverage (%) <sup>(9)</sup>	-	110	110	110	110	110	110	110	110	110	110	110	110
13	Interim Replacements (IR) Deposits <sup>(10)</sup>	2,129	2,129	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994
14	Interim Replacements Cost <sup>(11)</sup>	109	224	231	238	245	252	260	268	276	284	292	301	310
15	Funds to be Transferred to General Subfund <sup>(12)</sup>	2,021	1,894	1,751	1,744	1,737	1,729	1,722	1,714	1,705	1,697	1,688	1,679	1,670
16	Deposit to Working Capital Reserve Account <sup>(13)</sup>	6	12	12	12	12	12	13	13	13	13	14	14	14
17	<b>Total Revenue Requirement (\$000) <sup>(14)</sup></b>	<b>3,505</b>	<b>26,219</b>	<b>24,778</b>	<b>24,826</b>	<b>24,875</b>	<b>24,926</b>	<b>24,979</b>	<b>25,033</b>	<b>25,088</b>	<b>25,145</b>	<b>25,204</b>	<b>25,265</b>	<b>25,328</b>
	<b>Total Project Cost</b>													
18	Net Cost to Participants <sup>(15)</sup>	3,505	24,198	22,884	23,074	23,131	23,189	23,249	23,311	23,374	23,440	23,508	23,577	23,649
19	Net Capacity (MW)	51	51	51	51	51	51	51	51	51	51	51	51	51
20	Gross Energy (MWh)	135,514	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029
21	Less: 4% Station Service (MWh)	5,421	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841
22	Less: 2.5% Transmission Losses (MWh) <sup>(16)</sup>	3,252	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505
23	Net Energy (MWh) <sup>(17)</sup>	126,841	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683
24	Capacity Factor (%)	57	57	57	57	57	57	57	57	57	57	57	57	57
25	Total Cost to Participants (\$/kW-month) <sup>(18)</sup>	11.45	39.54	37.39	37.70	37.80	37.89	37.99	38.09	38.19	38.30	38.41	38.52	38.64
26	<b>Total Cost to Participants (\$/MWh) <sup>(19)</sup></b>	<b>27.63</b>	<b>95.39</b>	<b>90.21</b>	<b>90.96</b>	<b>91.18</b>	<b>91.41</b>	<b>91.65</b>	<b>91.89</b>	<b>92.14</b>	<b>92.40</b>	<b>92.66</b>	<b>92.94</b>	<b>93.22</b>

**Table 5**  
**Projected Meldahl Operating Results for Participants Other than Hamilton**

**AMP**

		2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
	<b>Revenues (\$000)</b>												
1	Participant Revenue <sup>(1)</sup>	23,722	23,798	23,877	23,957	24,040	24,126	24,214	24,304	24,398	24,494	24,593	24,695
2	Transfers from IR Fund <sup>(2)</sup>	1,670	1,660	1,650	1,640	1,630	1,619	1,608	1,596	1,585	1,572	1,560	1,547
3	<b>Total Revenue (\$000) <sup>(3)</sup></b>	<b>25,392</b>	<b>25,459</b>	<b>25,527</b>	<b>25,597</b>	<b>25,670</b>	<b>25,745</b>	<b>25,822</b>	<b>25,901</b>	<b>25,982</b>	<b>26,067</b>	<b>26,153</b>	<b>26,242</b>
	<b>Operating Expenses (\$000)</b>												
4	Operation and Maintenance <sup>(4)</sup>	1,188	1,223	1,260	1,298	1,337	1,377	1,418	1,461	1,505	1,550	1,596	1,644
5	Administrative and General <sup>(4)</sup>	230	237	244	251	259	266	274	283	291	300	309	318
6	Insurance, License Fees and Taxes	1,653	1,665	1,678	1,691	1,705	1,719	1,733	1,748	1,763	1,779	1,795	1,812
7	Transmission Charges <sup>(5)</sup>	-	-	-	-	-	-	-	-	-	-	-	-
8	Meldahl Overhead Adder <sup>(6)</sup>	373	384	395	407	419	432	445	458	472	486	501	516
9	<b>Total Operating Expenses (\$000)</b>	<b>3,443</b>	<b>3,509</b>	<b>3,577</b>	<b>3,647</b>	<b>3,719</b>	<b>3,794</b>	<b>3,871</b>	<b>3,949</b>	<b>4,031</b>	<b>4,114</b>	<b>4,201</b>	<b>4,290</b>
10	Net Available <sup>(7)</sup>	21,949	21,950	21,950	21,950	21,950	21,951	21,951	21,951	21,952	21,952	21,952	21,953
11	Net Debt Service Requirement <sup>(8)</sup>	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941	19,941
12	Debt Service Coverage <sup>(9)</sup>	110	110	110	110	110	110	110	110	110	110	110	110
13	Interim Replacements (IR) Deposits <sup>(10)</sup>	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994
14	Interim Replacements Cost <sup>(11)</sup>	320	329	339	349	360	370	382	393	405	417	429	442
15	Funds to be Transferred to General Subfund <sup>(12)</sup>	1,660	1,650	1,640	1,630	1,619	1,608	1,596	1,585	1,572	1,560	1,547	1,534
16	Deposit to Working Capital Reserve Account <sup>(13)</sup>	14	15	15	15	15	16	16	16	17	17	18	18
17	<b>Total Revenue Requirement (\$000) <sup>(14)</sup></b>	<b>25,392</b>	<b>25,459</b>	<b>25,527</b>	<b>25,597</b>	<b>25,670</b>	<b>25,745</b>	<b>25,822</b>	<b>25,901</b>	<b>25,982</b>	<b>26,067</b>	<b>26,153</b>	<b>26,242</b>
	<b>Total Project Cost</b>												
18	Net Cost to Participants <sup>(15)</sup>	23,722	23,798	23,877	23,957	24,040	24,126	24,214	24,304	24,398	24,494	24,593	24,695
19	Net Capacity (MW)	51	51	51	51	51	51	51	51	51	51	51	51
20	Gross Energy (MW/h)	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029	271,029
21	Less: 4% Station Service (MW/h)	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841	10,841
22	Less: 2.5% Transmission Losses (MW/h) <sup>(16)</sup>	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505	6,505
23	Net Energy (MW/h) <sup>(17)</sup>	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683	253,683
24	Capacity Factor (%)	57	57	57	57	57	57	57	57	57	57	57	57
25	Total Cost to Participants (\$/kW-month) <sup>(18)</sup>	38.76	38.89	39.01	39.15	39.28	39.42	39.56	39.71	39.87	40.02	40.18	40.35
26	<b>Total Cost to Participants (\$/MW/h) <sup>(19)</sup></b>	<b>93.51</b>	<b>93.81</b>	<b>94.12</b>	<b>94.44</b>	<b>94.76</b>	<b>95.10</b>	<b>95.45</b>	<b>95.81</b>	<b>96.17</b>	<b>96.55</b>	<b>96.94</b>	<b>97.35</b>

**Table 5**  
**Projected Meldahl Operating Results for Participants Other than Hamilton**  
**AMP**

**Footnotes:**

- <sup>(1)</sup> Line 3 minus Line 2.
- <sup>(2)</sup> From Line 15.
- <sup>(3)</sup> Equal to Line 17, Total Revenue Requirement.
- <sup>(4)</sup> Estimated based on actual expenses of the Greenup Hydroelectric Plant. Escalated 3% annually.
- <sup>(5)</sup> Delivery Point is the Project interconnection with PJM. All transmission and ancillary service charges to delivery power from the Project interconnection to the Secondary Point of Delivery (Participant point of delivery) will be charged to the participant.
- <sup>(6)</sup> \$1.00/MWh in 2014 escalated 3% annually. See "AMP, Hamilton and Meldahl, LLC Agreement" in Section I for a description of the Meldahl Overhead Adder.
- <sup>(7)</sup> Line 3, Total Revenue minus line 9, Total Operating Expenses.
- <sup>(8)</sup> Net of Federal Interest Subsidies and interest earnings on Debt Service Reserve Fund and Federal Subsidy Special Reserves. 2015 Net Debt Service Requirement is Equal to Payments Due from February 15, 2015 through and including February 15, 2016 Principal and Interest Payment. Includes Supplemental Base Capacity Charge of \$0.64/kW-month for repayment of the \$4.86 million Meldahl Participation Payment per section 5(A)(xiv) and Appendix B 4(a)(iii) of the Meldahl Power Sales Contract.
- <sup>(9)</sup> Line 10, Net Available divided by Line 11, Net Debt Service Requirement multiplied by 100.
- <sup>(10)</sup> Line 11, Net Debt Service Requirement multiplied by 10%. 2015 Net Debt Service Requirement Used to Calculate 2014.
- <sup>(11)</sup> 0.25% of initial cost of electrical and mechanical equipment escalated 3% annually.
- <sup>(12)</sup> Line 13, Interim Replacements (IR) Deposits minus Line 14, Interim Replacement Costs.
- <sup>(13)</sup> Line 9, Operating Expenses divided by 12 months and multiplied by 5%.
- <sup>(14)</sup> Sum of Lines 9, 11, 13 and 16.
- <sup>(15)</sup> From Line 1, Participant Revenue.
- <sup>(16)</sup> 2.5% of the difference of Line 20, Gross Energy and Line 21, Station Service.
- <sup>(17)</sup> Line 20, Gross Energy minus Line 21 and Line 22.
- <sup>(18)</sup> Line 18, Net Cost to Participants divided by Line 19, Net Capacity (MW) multiplied by 1,000 and divided by 12 months.
- <sup>(19)</sup> Line 18, Net Cost to Participants divided by Line 23, Net Energy (MWh) and multiplied by 1,000.
- <sup>(20)</sup> Estimated in-service date is July 15, 2014 (approximately 6 months of operation in 2014).

### ***Credit for Renewable Energy***

We expect that the renewable energy certificates (RECs) associated with energy generated by Meldahl could be sold in the REC market, at a price subject to the market conditions at the time of sale, to reduce the annual cost of the Project. However, the long-term outlook of the REC market is difficult to predict. Thus, no credit was assumed in this analysis for the sale of RECs.

### ***Local, State and Federal Taxes***

AMP anticipates that it will not be subject to federal taxes except payroll related taxes and has not determined what taxes or abatements of the same are applicable in Ohio or Kentucky. AMP is exempt from certain state sales taxes in Kentucky under applicable laws and is working with both states to obtain exemption certificates. AMP is unable at this time to estimate any other taxes, which may or may not be applicable to the Project. AMP is subject to Ohio personal property and real estate taxes and may be subject to taxes in other states to the extent it owns property and operates projects in such states.

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## VI. ANALYSIS OF POTENTIAL PROJECT RISKS

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The purpose of this section is to identify risks associated with constructing, owning and operating the Meldahl Project.

### **| OVERVIEW OF RISK**

We have reviewed the potential risks associated with the Project. An overview of the risk identification and mitigation process is as follows:

- Develop risk inventory of all risks of the Project
- Evaluate risk in terms of likelihood of occurrence and potential impact on Project power costs
- Identify risk mitigation strategies

The following sections identify the risks associated with the Project.

### **| OVERVIEW OF PROCESS**

Identifying the risks involved, developing a risk inventory of the risks that could occur for the Project and developing risk mitigation strategies for each risk source. Developing the risk inventory was approached from the perspective of three risk environments:

- Internal risks – Those risks that occur internal to the AMP organization or the Project and can be controlled by processes implemented by AMP.
- Market risks – AMP will have moderate control over the risks that occur in the electric market environment. There are market derivatives and hedging instruments available to manage market risks.
- External risks – Risks related to political, regulatory and environmental are the most difficult to control.

#### ***Internal Environment Risk Identification***

- Strategic Risk (Risk related to competitive position and changes in customer demand)
- Operational Risk (Risk related to the Project; operations and failures in people, processes, and systems)
- Technology Risk (Risk associated with technology uncertainties and uncertain operating performance)

- Development and Construction Risk (Risk associated with construction delays, cost overruns and availability of construction materials and human craft resources)

### ***Market Environment Risk Identification***

- Transmission Risk (Risk related to power delivery and congestion)
- Credit Risk (Risk related to the possibility of counter party default)

### ***External Environment Risk Identification***

- Event Risk (Risk related to unplanned generation outages, water condition (high/low water) interruptions, etc.)
- Hazard Risk (Risk related to accidents, insurability of generation assets, acts of nature, terrorism, etc.)
- Legal and Contractual Risk (Risk related to the interpretation and enforceability of contracts, and the failure of counter party to perform)
- Regulatory Risk (Risk related to uncertainty in laws and regulations and changing environmental regulations)

### ***Internal Risk Mitigation***

- Strategic risks are expected to be low because the cost of the Project should not cause the Participants' rates to become uncompetitive. Strategic risks related to potential changes in the Participants' competitive position would be mitigated by keeping the cost (and cost increases) of the Project to the Participants as low (and stable) as possible through the use of longer-term debt, low cost tax-exempt or tax-advantaged financing and use of rate stabilization funds (if needed).
- Operational risks are mitigated by developing procedures to attract and maintain highly qualified staff, training programs, developing high standards for plant performance, sound maintenance programs, and state-of-the-art systems.
- Technology risks would be mitigated through the incorporation of design specifications and guarantees in the Meldahl design and construction contracts.

## **DEVELOPMENT AND CONSTRUCTION RISK MITIGATION**

For the purpose of the contracting plan that was prepared by MWH, risk was defined as any action or event that causes delay to the completion schedule for the works or causes an increase to the agreed contract amount. It is understood that it is not reasonable to eliminate all risks but



with thorough planning and careful assignment, the magnitude of risks can be mitigated and managed.

AMP and Hamilton, in consultation with MWH and legal counsel, have developed a plan of contracting that should mitigate risks on the Meldahl Project but still allow for compliance with the FERC required construction timelines. Most cost overruns occur as a direct result of a lack of information. In an effort to reduce risks, AMP and Hamilton decided to utilize the following contract packages to develop the Meldahl Project:

CONTRACT DESCRIPTION	ANTICIPATED DATE OF ISSUE	ANTICIPATED CONTRACT AWARD	CONTRACT COMPLETE
Turbine/Generator	Awarded	Awarded	Spring 2014
Cofferdam	Awarded	Awarded	Jun-2011
Transmission Line	Jun-2012	Nov-2012	Jun-2013
General Contract	May 2011	Jun-2011	Jun-2014

For the construction of the Meldahl Project, the four principal categories of risk addressed herein include the following:

1. Delay/Disruption/Acceleration – Risk of schedule impact caused by circumstances beyond the control of the contractor. This category of risk includes both cost and schedule impacts and also is normally encountered as a major component for all risk categories. Examples include: delayed turnover of work areas from one contractor to the next; delayed delivery of equipment supplied by others; delayed delivery or review of drawings; revision of construction sequence due to other changes (disruption or ripple affect); and, failure to issue extensions of time in a timely manner resulting in the contractor’s speeding up other work to achieve, makeup, or overcome time lost (acceleration).
2. Differing Site Conditions – The predominant cause for differing site conditions (“DSC”) risk relates to geologic risk of encountering subsurface conditions that would not reasonably be expected by a competent contractor performing similar work. DSC issues almost universally also include delay/disruption/acceleration impacts.
3. Force Majeure – Risk of circumstances occurring which are beyond the control of the owner or contractor fall into this general category. Examples include: unusual weather such as floods, civil disturbance, etc.

4. Other - Although the categories of risk identified under items 1, 2, and 3 above describe the major issues that may be anticipated during implementation of the Project, the last category addressed herein is the risk of cost and schedule impacts resulting from design changes, market conditions, outside influence including agency and third party demands, and most importantly, misunderstandings between the parties.

### ***Delay/Disruption/Acceleration Risk***

The primary cause of such risks specifically limited to schedule is interference from others beyond the control of the contractor. These risks will be mitigated using one or more of the following measures:

1. To the maximum extent reasonable, all work will be compartmentalized such that interfacing of separate prime contractors is minimized.
2. Contracts will be scheduled for award and commencement such that sufficient float time is available to complete the previous work.
3. To the maximum extent reasonable, design documents will be completed prior to bidding of all contracts to minimize schedule issues related to late delivery of design. With final design provided at the time of bid, design changes will be minimized and limit the risk of disruption due to design changes.
4. Where interfacing is inevitable, performance milestones will be established in each contract for all significant interface events (i.e. equipment delivery, work area turnover, etc.). The interface milestones will be calculated such that float time belonging to AMP is incorporated between dates set out in each contract.
5. Most of the bidders for the gates, cranes, and transformers are located in the United States and as a result, if they are successful, risks for the supply of this equipment will be reduced.

Schedule-related risks for delay, disruption and acceleration constitute the largest and most difficult category of issues for avoidance and, if necessary, to protect against. In addition to issues specifically limited to schedule impact, nearly all other risks will incorporate a significant component of cost and time impact for delay, disruption and acceleration. For the construction of the Meldahl Project, the risks of delay, disruption, and acceleration will be addressed in the contract documents as follows:

### ***Differing Site Conditions***

The primary source of DSC risk is subsurface geologic conditions that would not be reasonably anticipated by a competent contractor performing similar work. The risk for encountering differing geologic site conditions have been reduced by a thorough subsurface investigation program but cannot be eliminated prior to construction. For the Meldahl Project, the key geologic factors are elevation of the top-of-rock and overburden thickness; consistency and workability of materials encountered during excavation; strength of foundation materials; permeability of foundations; buried trash; possible toxic substances or volatile organic compounds; location and suitability of borrow, fill and rock materials incorporated into the works; and disposal of surplus material from excavations.

Results of the investigation program will be provided to prospective contractors and they will be accepted by bidders prior to the time of bidding. The results will be presented in the form of a Geotechnical Data Report (“GDR”) as well as a Geotechnical Baseline Report (“GBR”), which are 1) intended to assist prospective contractors in the evaluation of the geological and geotechnical conditions for bidding and construction of the work, and 2) establish a baseline of geological and geotechnical conditions to be used for comparing the anticipated conditions stated in the GBR to the actual conditions encountered during construction. All potential bidders will review these and draw their own conclusions relative to the possible impacts of subsurface conditions upon its construction means and methods. Contractors will also be provided the opportunity to do additional investigations upon request. In this way, the contractor will retain complete responsibility for determination of the optimal means and methods for performance of the work.

Despite assignment of the risk to the contractor for interpretation of the GDR/GBR and for selection of the means and methods to perform the work, the investigation program cannot assure that unforeseen conditions will not be encountered. The risk that unforeseen conditions may be uncovered during the course of the work therefore remains.

Acknowledging the presence of the DSC risk, the scope for contract packaging will be structured to compartmentalize the risk and limit its impact on the Meldahl Project. For the Meldahl Project, the risk for geologic DSC is limited to: cofferdam construction and fill preparation; excavation; dewatering; foundation preparation; channel excavation; and backfill. These activities are anticipated to be performed at the early stages with the exception of channel excavation and backfill. To compartmentalize or isolate these risks from the balance of the work, the activities of cofferdam construction and fill preparation, excavation, dewatering, and foundation preparation will be packaged into a single construction contract. This contract will be awarded sufficiently early in the project implementation program to permit completion prior to

commencement of the remaining civil works. The expected benefits of this approach are as follows:

- Because of the time necessary to incorporate the equipment design into the civil works construction design, sufficient time is available to complete cofferdam construction and fully prepare the site prior to bidding the remaining civil works package. Therefore, an advance cofferdam construction package will not only advance the overall implementation program but will also isolate these subsurface risks from the remaining civil works.
- Any DSC risks realized during cofferdam construction, excavation, dewatering, or foundation preparation can be resolved prior to bidding of the remaining civil works. Any delays caused by DSC issues will be historical and have no further impact upon the program.
- Because indirect costs are directly related to the magnitude of the contract, any DSC claims during cofferdam construction, excavation, dewatering, or foundation preparation will tend to be economically smaller due to the smaller value of that bid package.

The possibility exists that the larger civil contractors will be induced to bid smaller packages (cofferdam / excavation) in hopes of positioning themselves for the larger contracts (equipment supply, installation, and concrete works). By holding off the award of the second contract, earlier civil contractors may have the incentive to minimize claims in the first phase.

During the bidding period for the remaining civil works package, the cofferdam, excavation, dewatering facilities and foundation preparation will be complete and available for inspection by prospective contractors for that work.

Although the majority of the DSC risk can be isolated with award of an advanced cofferdam contract, DSC risk cannot be fully removed from the remaining civil works package due to the requirements for channel excavation, cofferdam removal, and channel protection which occur later in the implementation schedule. However, these activities are not critical path activities and DSC claims would likely be limited to work only outside of the cofferdam. This typically would involve unit quantity count disputes and impacts associated from river changes including but not limited to sedimentation.

### ***Force Majeure***

Floods and other events that fall into the category of Force Majeure are risks that cannot be controlled by either the contractor or the owner. Neither the magnitude nor duration of these

events can be reasonably predicted by either party. Delays caused by such events impact both parties. Because neither party is at fault for the delay, neither is considered financially culpable for the delays. The contracts for the Meldahl Project will acknowledge these facts by establishing the basis for extension of time for Force Majeure events and also by specifying that each party is responsible for the consequences to it of such “no fault” events. The cofferdams will be constructed to provide for up to a 100-year flood event. Lesser frequent events are not expected to severely impact construction.

### ***Other Risks***

Although the categories of risk identified previously incorporate the major issues anticipated during implementation of the Meldahl Project, it must also be recognized that cost and schedule risks for such complex work are limited only by the imagination. The last category addressed herein includes the risk of cost and schedule impacts resulting from design change, market conditions, outside influence including agency and third party demands, and most importantly, misunderstandings between parties.

The most effective method to mitigate the miscellaneous category of schedule and cost risk is to maintain open and cooperative communications between knowledgeable and experienced professionals of the owner, the engineer, and leadership for the contractors. As part of contractor selection for pre- and post-qualification, contractors will be requested to provide the names, resumes, and references for the specific individuals to be assigned to the work. This information will be evaluated to confirm that contractor leadership positions are filled by staff that have recent relevant experience, that have sufficient background knowledge of the works to be undertaken, and have a record of successful performance in similar roles for similar work. The contracts will contain provision for AMP and Hamilton or MWH to remove contractor staff deemed detrimental to the Project. The following additional information will be gathered from every pre-qualified contractor for evaluation:

- Name of bidder and business address;
- Financial statements including independent audits;
- Statement of bonding capacity from the bidder's surety;
- Statement of work currently bonded;
- Statement of location of current work being performed;
- Statement of safety records;
- Statement of any current or pending litigation, including bankruptcy proceedings;
- Organizational status (corporation, partnership, etc.);
- Name and title of principals in the bidder's organization;
- Location of points of design and fabrication (suppliers only);

- Resume of experience in the design and fabrication of similar types of equipment with respect to size, scope, and performance requirements;
- Listing of similar projects including original contract amount, final contract amount, client reference, and contact;
- Names and experience of individuals available for assignment to the contract work (this information will also be submitted with the bid);
- Statement of intent to subcontract any portion of the work and the nature of such work; and
- Name, business address, and point of fabrication of any known subcontractors.

## **MARKET RISK MITIGATION**

- Transmission risks would be mitigated by proper oversight of the processes required to interconnect the Project to the RTOs' transmission systems and the use of allocated Financial Transmission Rights and Auction Revenue Rights to mitigate congestion costs.
- Credit risks will be mitigated by screening of counter parties so that only large highly rated financial institutions are used and only proposals from a limited number of large nationally recognized firms are considered for the design and construction contractor.

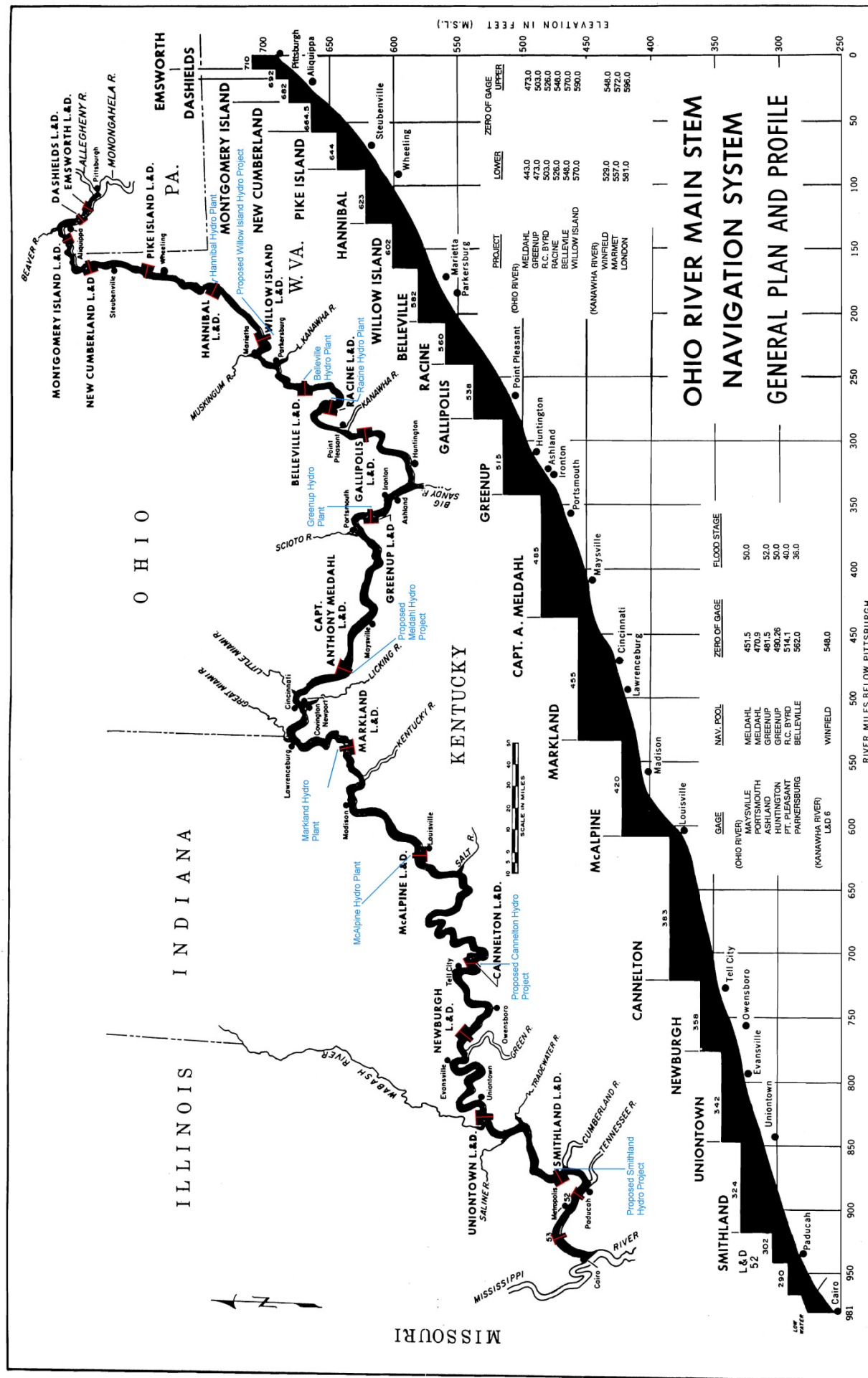
## **EXTERNAL RISK MITIGATION**

- Hazard risks can be mitigated through training programs, good oversight as an owner, appropriate insurance instruments, establishment of reserves (if necessary) and implementing a reliable and sound design for the Project.
- Legal and contractual risks surrounding counter party performance creates the need to negotiate comprehensive contracts with companies selected to design and build the Meldahl Project. The contract will need to contain strong provisions to protect AMP and Hamilton from liability of actions of the counter parties.
- Regulatory risks related to environmental regulations may be somewhat mitigated by continued monitoring of environmental regulations and planning for the potential impact on the Project.

# **APPENDIX A**

## **Ohio River Main Stem Navigation System**

Figure A-1





# **APPENDIX B**

## **Projected Meldahl Hydroelectric Project Performance and Cost**

**Table B-1**  
**Projected Meldahl Hydroelectric Project Performance and Cost (Hamilton)**  
**License Expires June 2058**

1	2	3	4	5	6	7	8	9
Year	Theoretical Max. Energy (MWh) <sup>(1)</sup>	River Flow De-Rate (MWh)	Gross Energy (MWh) <sup>(2)</sup>	Non-Flow De-Rate (MWh)	Net Energy (MWh) <sup>(3)</sup>	Capacity Factor (%) <sup>(4)</sup>	Project Cost	
							(\$/kW-mo)	(\$/MWh)
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	236,520	93,034	143,486	9,183	134,303	56.78	11.32	27.30
2015	473,040	186,069	286,971	18,366	268,605	56.78	38.85	93.73

10	11	12	13	14	15	16	17	18	19
Year	(\$/MWh)								
	A&G	Debt Service	AMP Op Agmt	Insurance Lic. Fees and Taxes	Professional Services	Utilities	O&M	Other Expenses	Total Project Cost
2011	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-
2014	0.62	-	1.00	6.00	0.13	0.19	3.19	16.18	27.30
2015	0.64	82.28	1.03	6.03	0.14	0.20	3.28	0.14	93.73

<sup>(1)</sup> Project Capacity (105 MW) multiplied by 8,760 hours.

<sup>(2)</sup> Column 2 minus Column 3.

<sup>(3)</sup> Column 4 minus Column 5.

<sup>(4)</sup> Column 6 divided by the product of 105 MW and 8,760 hours. (Half the hours for 2014)

**Table B-2**  
**Projected Meldahl Hydroelectric Project Performance and Cost**  
**(Other Participants)**  
**License Expires June 2058**

1	2	3	4	5	6	7	8	9
Year	Theoretical Max. Energy (MWh) <sup>(1)</sup>	River Flow De-Rate (MWh)	Gross Energy (MWh) <sup>(2)</sup>	Non-Flow De-Rate (MWh)	Net Energy (MWh) <sup>(3)</sup>	Capacity Factor (%) <sup>(4)</sup>	Project Cost	
							(\$/kW-mo)	(\$/MWh)
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	236,520	93,034	143,486	9,183	134,303	56.78	11.45	27.63
2015	473,040	186,069	286,971	18,366	268,605	56.78	39.54	95.39

10	11	12	13	14	15	16	17	18	19
Year	(\$/MWh)								
	A&G	Debt Service	AMP Op Agmt	Insurance Lic. Fees and Taxes	Professional Services	Utilities	O&M	Other Expenses	Total Project Cost
2011	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-
2014	0.62	-	1.00	6.00	0.12	0.18	3.19	16.53	27.63
2015	0.64	83.94	1.03	6.03	0.13	0.19	3.28	0.16	95.39

<sup>(1)</sup> Project Capacity (105 MW) multiplied by 8,760 hours.

<sup>(2)</sup> Column 2 minus Column 3.

<sup>(3)</sup> Column 4 minus Column 5.

<sup>(4)</sup> Column 6 divided by the product of 105 MW and 8,760 hours. (Half the hours for 2014)



An SAIC Company

December 2, 2010

Board of Trustees  
 American Municipal Power, Inc.  
 1111 Schrock Rd., Suite 100  
 Columbus, Ohio 43229

Members of the Board of Trustees:

Subject: ***American Municipal Power, Inc.  
 Meldahl Hydroelectric Project  
 Market Comparison Analysis and Participant Beneficial Use Analysis***

Presented herewith is a summary of the results of our studies, investigations and analyses undertaken in connection with the proposed issuance by American Municipal Power, Inc. (“AMP”) of its Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable) (the “Series 2010A Taxable Bonds”), Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Series 2010B Taxable BABs”), Series 2010C (New Clean Renewable Energy Bonds) (the “Series 2010C New CREBS”) and Series 2010D (Tax-exempt) (the “Series 2010D Bonds”, which, together with the Series 2010A Taxable Bonds, Series 2010B Taxable BABs and Series 2010C CREBS are referred to herein as the “Series 2010A-D Bonds”). AMP additionally plans to issue during December 2010 its Meldahl Project Revenue Bonds, Series 2010E (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Series 2010E BABs”, which, together with the Series 2010A-D Bonds are referred to herein as the Series 2010 Bonds).

AMP plans to develop a 105 MW run-of-the-river hydroelectric facility to be located at the Meldahl Locks and Dam on the Ohio River (the “Meldahl Project”). In addition, AMP plans to acquire an ownership interest in an existing 70.2 MW run-of-the-river hydroelectric facility located at the Greenup Locks and Dam on the Ohio River (the “Greenup Facility”). The Greenup Facility is currently owned and operated by the City of Hamilton, Ohio (“Hamilton”), an AMP Member. AMP has negotiated with Hamilton to purchase 48.6% of the Greenup Facility (the “Greenup Project”). The closing on the Greenup Project is contingent upon the development, construction and placing into service of the Meldahl Project. Under its agreements with Hamilton, AMP will own and Hamilton will operate the 105 MW Meldahl Project, and Hamilton will continue to operate the Greenup Facility. AMP and Hamilton, as co-licensees, hold the FERC licenses for both the Greenup Project and the Meldahl Project. AMP currently projects that the Meldahl Project will be placed in service by July 15, 2014 and that the acquisition of its undivided ownership interest in the Greenup Facility will close within 60 days thereafter as required by its agreements with Hamilton.

For more information on the Meldahl Project and the Greenup Project (together the “Meldahl and Greenup Projects”), see AMP’s Official Statement for the Series 2010 A-D Bonds (the “Official Statement”), which includes as Appendix H-1 the Consulting Engineer’s Report prepared by Sawvel and Associates, Inc. (“Sawvel”).

R. W. Beck, Inc., an SAIC company (“R. W. Beck”), has been retained by AMP in connection with its proposed issuance of the Series 2010A-D Bonds for the purposes of (i) preparing an analysis that compares the projected costs of the Meldahl Project to projections of market prices (the “Market Comparison Analysis”) and (ii) preparing an analysis, in accordance with Section 2 (B) (x) of the Power

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Sales Contract for each project, to determine if each Participant in the Meldahl Project can beneficially utilize its resource share of the Meldahl Project (the "Participant Beneficial Use Analysis"). The results of our analyses are summarized in this letter report (the "Report") attached as Appendix H-2 to the Official Statement.

As used in this Report, the capitalization of any word or term not normally capitalized indicates that such word or term shall have the meaning assigned to it in the particular agreement or other document discussed or is defined in AMP's Official Statement prepared in connection with the Series 2010A-D Bonds (the "Official Statement"). References to and descriptions of such agreements or documents in this Report represent our understanding of certain general principles thereof, but do not purport to be complete and are qualified in their entirety by reference to such agreements or documents. For a more complete discussion, see the Official Statement, including certain appendices thereto for summaries of certain provisions of the agreements or documents referred to herein.

This Report summarizes the results of the investigations and analyses of R. W. Beck up to the date of this Report. Changed conditions occurring or becoming known after such date could affect the material presented herein to the extent of such changes. We have not been retained by AMP to update this Report beyond the date hereof.

Reference is made to the section in the Official Statement entitled "CERTAIN FACTORS AFFECTING AMP, THE PARTICIPANTS AND THE ELECTRIC UTILITY INDUSTRY" for a discussion of certain factors in the electric industry which will have an impact on the business affairs and financial condition of both public and private electric utilities.

Nothing contained in this Report is intended to indicate conditions with respect to the safety or security regarding the Meldahl Project or to conformance with agreements, codes, permits, rules or regulations of any party having jurisdiction with respect to the construction, operation, and maintenance of the Meldahl Project, which matters are outside the scope and purposes of this Report.

## **AMERICAN MUNICIPAL POWER, INC.**

### **INTRODUCTION**

AMP was formed in 1971 under Ohio Revised Code Chapter 1702 as a nonprofit corporation. AMP operates on a cooperative basis for the mutual benefit of its members (the "Members"). All but one Member own and operate electric utility distribution systems and in some cases generating assets. As of November 1, 2010, AMP had 128 Members located in 6 states. There are 82 Members in Ohio, 30 in Pennsylvania, 6 in Michigan, 5 in Virginia, 2 in West Virginia and 3 in Kentucky. For information concerning the AMP organization and its Members, see the section in the Official Statement entitled "AMERICAN MUNICIPAL POWER, INC."

### **POWER SUPPLY RESOURCES**

The Members of AMP receive their power supply from a mix of resources that include:

- wholesale power purchases through AMP and on the open market from investor-owned utilities and marketers;

- replacement energy for that previously produced at AMP's 213 MW, coal-fired Richard H. Gorsuch Generating Station near Marietta, Ohio<sup>1</sup>;
- individual Member-owned generation facilities; and
- municipal generation joint ventures such as the 42 MW Belleville Hydroelectric Project at the Belleville Locks and Dam on the Ohio River; the 7.2 MW AMP Wind Farm located near Bowling Green, Ohio and approximately 334 MW of distributed peaking generation (either owned by AMP or a municipal joint venture) using natural gas and diesel fuel.

AMP is also developing additional power projects that are scheduled to be commercially available beginning in 2011.

AMP has a 23.26 percent undivided ownership interest in the 1,582 MW Prairie State Energy Campus ("PSEC") coal-fired power plant as a tenant-in-common with seven other parties that are co-owners of PSEC. Sixty-eight AMP Members have entered into a Power Sales Contract for the purchase of the capacity and energy from the PSEC (the "PSEC Project"). Unit 1 of the PSEC Project is projected to be commercially available beginning in late 2011, followed by Unit 2 in mid-2012.

AMP is currently developing three other hydroelectric projects, the 88 MW Cannelton hydroelectric generating facility, the 76 MW Smithland hydroelectric generating facility and the 44 MW Willow Island hydroelectric generating facility (the "AMP Combined Hydro Projects"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Seventy-nine AMP Members have entered into a Power Sales Contract for the purchase of the capacity and energy from the AMP Combined Hydro Projects. As of the date of this Report, AMP projects that the Cannelton, Smithland, and Willow Island facilities will be commercially available in June 2014, October 2014, and March 2015, respectively.

Table 1 shows the shares in these AMP additional power projects, as well as in the Meldahl and Greenup Projects discussed herein, for each of the Meldahl Participants.

Five of the Members in Michigan are members of the Michigan South Central Power Agency ("MSCPA"), which owns and operates a 50 MW (summer rating) power plant in Litchfield, Michigan on behalf of the MSCPA members. The members of MSCPA also own 76 MW of peaking units and hydro resources. Also, MSCPA purchases partial requirements service from AMP on behalf of the MSCPA members.

Four of the Members in Virginia are members of the Blue Ridge Power Agency. These four Members have purchased all requirements power from AMP since July 2006.

Two of the Members in Kentucky are members of the Kentucky Municipal Power Agency ("KMPA").

For additional information concerning the power supply resources of AMP and its Members, see the section in the Official Statement entitled "AMERICAN MUNICIPAL POWER, INC. – Other Projects".

## POWER SUPPLY PLANS

Beginning in 2006, AMP has contracted with R. W. Beck to develop and update long-term power supply plans for its Members. R. W. Beck has prepared reports for each of the Members (that were Members at

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<sup>1</sup> AMP ceased electric generation operations of the Gorsuch plant on November 17, 2010.

the time that the respective report was prepared) that included a 20-year load forecast, a 20-year optimal power supply plan and the key inputs and assumptions used to develop the plan. The first reports were provided to Members in February 2007, and updates were prepared in June 2009, November 2009, and September 2010.

In developing the initial power supply plan for each Member, a generation expansion plan was developed assuming that the Member could participate in “slices” of future AMP generating resources equal to 15 percent of the Member’s projected peak demand in the final year of the study period (plus an allowance for 12 percent reserves). The generating resource options have included future generic base load coal, natural gas-fired combined cycle and peaking resources, the proposed AMPGS project<sup>2</sup>, the PSEC Project, the AMP Combined Hydro Projects, and proposed future wind projects. The purchase power options have included a 5-year peak load 5x16<sup>3</sup> contract, a 10-year base load 7x24<sup>4</sup> contract, as well as spot market purchases. The generation expansion plan was developed by considering shares (in terms of slices) of each of these options. The optimal power supply plan was developed by selecting the optimal power supply strategy (amount and timing of resource additions) that minimized the total net present value of power supply costs and risks over a 20-year projected period.

For the initial power supply plans provided in February 2007 for 119 AMP Members, the AMPGS project was included as an option for those Members that were participating in the development phase of the AMPGS project. The PSEC Project and the Hydro Project were included as an option for all Members. The initial power supply plan developed for each Member was intended to give that Member an indication of the optimal amount, timing, and type of power supply resources needed over the 20-year study period 2008-2027.

In June 2009, R. W. Beck was engaged by AMP to prepare a 20-year power supply plan (“June 2009 Power Supply Plan”) for 126 AMP Members. The June 2009 Power Supply Plan for each Member consisted of a “Base Case”, which included the existing generating resources that each Member owns, existing generating resources that AMP owns and operates on behalf of the Members, and the future generating resources that each Member has under contract with AMP. The future resources included AMPGS, PSEC, and the AMP Combined Hydro Projects. The “Optimal Resource Plan” indicated the generating resource additions each Member should consider making during the 2012-2031 period to minimize expected power supply costs. In addition to the Optimal Resource Plan, the June 2009 Power Supply Plan for each Member included an alternative scenario plan that considered the impacts of implementing the AMP Energy Efficiency programs on each Member’s resource decisions. The plans also took into consideration the Renewable Portfolio Standards (“RPS”) that had been adopted at the state level.

The results of the June 2009 Power Supply Plan indicated that there is a need for additional intermediate and peaking type generating resources. The Optimal Resource Plan (with the AMP Energy Efficiency programs) reflected an aggregate of 285 MW of additional hydro capacity (consisting of the 34.1 MW Greenup Project, 105 MW Meldahl Project, and 110 MW of other future hydro capacity), 697 MW of combustion turbine capacity and 1,007 MW of combined cycle capacity to be installed by 2020.

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<sup>2</sup> AMPGS refers to the American Municipal Power Generating Station, which AMP originally proposed to develop as a two-unit, 960 MW coal-fired generating station to be located in Meigs County, Ohio.

<sup>3</sup> Power is delivered five days per week for 16 hours per day.

<sup>4</sup> Power is delivered seven days per week for 24 hours per day.

In November 2009, R. W. Beck was engaged by AMP to update the June 2009 plans to reflect a substantial increase in the capital cost estimate of AMPGS and to consider alternative portfolios including a portfolio with and without AMPGS. The lowest cost resource plan reflected the cancellation of AMPGS and included the recovery of the sunk costs of AMPGS with the additional resource options to include the Greenup Project, Meldahl Project, combined cycle projects, combustion turbine projects and the two fixed-price purchased power contracts. After consideration of the results of the update and other information provided by the AMP staff, the AMPGS Participants and AMP Board of Trustees passed a resolution to cancel the development of AMPGS as a coal-fired facility.

In September 2010, R. W. Beck prepared updated power supply plans for 124 of AMP's Members, considering alternative portfolios that included each Member's existing resources and future committed resources under contract (PSEC Project, AMP Combined Hydro Projects, Greenup Project, and Meldahl Project), as well as some combination of combined cycle, combustion turbine, nuclear, and fixed-price purchased power contracts including solar and wind purchased power options. The combined cycle option includes a project to be built on the site of the recently-canceled AMPGS project.

The results of the September 2010 Power Supply Plan indicated that there is a need for additional intermediate and peaking type generating resources. The Optimal Resource Plan (with the AMP Energy Efficiency programs) reflected an aggregate need of 1,275 MW of future combined cycle capacity, plus 220 MW of future combustion turbine capacity, 203 MW of future nuclear capacity, 214 MW wind capacity and 434 MW of solar capacity by 2025<sup>5</sup>.

## PROJECT PARTICIPANTS

Of the 128 AMP Members, 48 Members, including Hamilton, (the "Meldahl Participants") have entered into a Power Sales Contract dated as of March 1, 2009 with AMP for participation in the Meldahl Project (the "Meldahl Power Sales Contract"), pursuant to which each Meldahl Participant is to receive its Project Share (the "Meldahl Project Share") of the nominal power and associated energy from the Meldahl Power Sales Contract Resources. For additional information concerning the Meldahl Power Sales Contract, see Appendix D to the Official Statement entitled "SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACT".

There are 39 Meldahl Participants located in Ohio, 5 in Michigan, 2 in Virginia, and 2 in Kentucky. With respect to the Greenup Project, 47 Meldahl Participants, consisting of all Meldahl Participants except for Hamilton, (the "Greenup Participants") have entered into a Power Sales Contract dated as of November 1, 2009 with AMP for participation in the Greenup Project (the "Greenup Power Sales Contract") pursuant to which each Greenup Participant is to receive its Project Share (the "Greenup Project Share") of the nominal power and associated energy from the Greenup Power Sales Contract Resources. The Greenup Participants and the Meldahl Participants are referred to herein individually as a "Participant" and collectively as "Participants". The Meldahl Project Shares and Greenup Project Shares are referred to herein collectively as the "Project Shares".

The Participants and Project Shares are listed on Table 2. Also, see Appendix A to the Official Statement entitled "THE PARTICIPANTS" for a list of the Meldahl Participants and their respective Meldahl Project Shares represented in kilowatts ("kW") and percent of the total Meldahl Project capacity.

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<sup>5</sup> Wind and solar capacity values reflect the rated capacity of these resources. For capacity planning purposes, the capacity of wind and solar generation is discounted to 18 and 47 percent, respectively, of rated capacity to reflect the capacity credit received in PJM and MISO for these types of resources.



The following table sets forth the aggregate demand and energy requirements for the Meldahl Participants over the historical period 2005 through 2009.

HISTORICAL POWER AND ENERGY REQUIREMENTS OF THE PARTICIPANTS				
Fiscal Year	Peak Demand (MW)	Annual Percent Growth	Energy Requirements (GWh)	Annual Percent Growth
2004	1,839.7		9,370	
2005	1,985.8	7.9%	9,741	4.0%
2006	2,015.4	1.5%	9,461	-2.9%
2007	2,012.5	-0.1%	9,803	3.6%
2008	1,893.4	-5.9%	9,630	-1.8%
2009	1,836.5	-3.0%	8,944	-7.1%
Compound Average Annual Growth Rate 2004-2009		0.0%		-0.9%

The changes in demand and energy requirements from year to year reflect the net effects of variations in population and economic activity in the service areas of the Meldahl Participants, incremental and decremental load impacts, and variations in weather conditions. Since December 2007, the United States has been in a historically deep and protracted recession. While the recession was determined to have ended in June 2009<sup>6</sup>, the recovery has not been as robust as prior, deep recessions.

Across the counties within which the Participants provide service, total employment and gross regional product declined over 2007-2009 by 4.2 percent on a weighted average basis. Similarly, at the state levels, the unemployment rate increased from 5.2 percent to 9.8 percent.<sup>7</sup> However, employment and gross regional product are expected to recover over the next several years, eclipsing the 2007 levels by 2013 and 2012 for employment and gross regional product, respectively. Over the 2009-2035 period, employment and gross regional product, across the counties within which the Participants provide service, are expected to grow at average annual rates of 1.0 percent and 1.9 percent per year, respectively.<sup>8</sup>

Peak summer temperatures were slightly milder than normal during 2009 across the regions served by the Participants. In addition, average weather conditions during 2009, represented by heating and cooling degree days, were also milder than normal. Across the regions served by the Participants, cooling degree days were 14 percent lower than normal, and heating degree days were 3 percent lower than normal. While 2008 exhibited similar peak weather conditions to those exhibited during 2009, summer 2008 was on average warmer than normal and much warmer than 2009. This exacerbated the decline in energy requirements between 2008 and 2009 shown in the table above.

The following table shows the projected aggregate peak demand and energy requirements for the Meldahl Participants for selected years through 2035. The forecasted requirements were prepared by R. W. Beck

<sup>6</sup> This determination was announced by the National Bureau of Economic Research (“NBER”) in a September 20, 2010 press release. The NBER is the organization most often looked to for economic cycle dating, but it typically does not make pronouncements regarding the start or end dates of recessions until at least several months after the fact.

<sup>7</sup> For purposes of computing average economic data by county or state, 2009 system energy requirements are used as weights. Data regarding unemployment rates was obtained from the Bureau of Labor Statistics.

<sup>8</sup> Historical and projected employment and gross regional product data discussed in this paragraph are based on data published by Woods and Poole Economics, Inc., in their 2010 State Profiles.

in August 2010, based on econometric models developed for each individual Participant, and reflect assumed normal weather conditions throughout the forecast period. The forecasted demand and energy requirements do not reflect additional demand-side management or conservation measures that may be undertaken in the future by AMP and/or the Participants.

**PROJECTED POWER AND ENERGY REQUIREMENTS OF THE PARTICIPANTS**

<b>Calendar Year</b>	<b>Peak Demand (MW)</b>	<b>Annual Percent Growth</b>	<b>Energy Requirements (MWh)</b>	<b>Annual Percent Growth</b>
2009 [1]	1,836.5		8,944	
2010	1,883.9	2.6%	9,171	2.5%
2015	1,992.2	1.1%	9,710	1.1%
2020	2,114.9	1.2%	10,320	1.2%
2025	2,247.6	1.2%	10,980	1.2%
2030	2,390.5	1.2%	11,691	1.3%
2035	2,543.8	1.3%	12,452	1.3%
Compound Average Annual Growth Rate 2009-2035		1.3%		1.3%

[1] Represents the actual aggregate peak demand and energy requirements for the Participants in 2009.

In August 2008, AMP authorized a 3-year energy efficiency start-up program, the AMP Efficiency Smart Power Plant (“Energy Efficiency Programs”), which consists of two tiers. Tier 1 consists of an educational and community-based initiative for all the AMP Members. Tier 2 consists of a subscription effort designed to enlist Members who wish to actively pursue a set of 10 energy efficiency programs. If all of the Meldahl Participants subscribe to and participate in all 10 of the Energy Efficiency Programs, it is estimated that the projected energy requirements shown in the table above would be reduced by approximately three percent in 2015 and eight percent in 2025, based on information provided by AMP. For more information on AMP’s Efficiency Smart program see the section in the Official Statement entitled “AMERICAN MUNICIPAL POWER, INC. – AMP’s Integrated Resource Strategy and Approach to Sustainability – Energy Efficiency.”

**PARTICIPANT TRANSMISSION SERVICES**

To deliver the output of the Meldahl Project and to obtain interconnection capacity/deliverability rights, AMP must, depending on the Project site selection location and FERC’s approval of Duke Energy’s requested integration into PJM<sup>9</sup> to become effective January 1, 2012, (i) be granted interconnection service with deliverability rights by PJM or MISO<sup>10</sup> through the respective generator interconnection

<sup>9</sup> PJM Interconnection (“PJM”) is a regional transmission organization (“RTO”) that coordinates the movement of wholesale electricity over thirteen states in the northeastern United States. PJM provides open access to transmission markets, long-term transmission planning and reliability, and operates a wholesale energy market. PJM’s energy markets operations include Day-Ahead, Real-Time and Financial Transmission Rights markets. PJM also operates capacity markets.

<sup>10</sup> The Midwest Independent Transmission System Operator, Inc. (“MISO”) is a non-profit, member-based organization that provides open access to transmission markets, long-term transmission planning, and transparent prices and manages the security-constrained economic dispatch of generation over its fifteen-state territory. MISO’s energy markets operations include Day-Ahead, Real-Time and Financial Transmission Rights markets.

processes and (ii) obtain firm point-to-point transmission service either under the PJM or MISO Open Access Transmission Tariff (“OATT”) to deliver the appropriate amount of output from the Project to the PJM/MISO border, unless a lower cost and equally reliable method of delivery can be employed by AMP. FERC conditionally approved Duke’s request to move to PJM on October 21, 2010.

The Project is considering multiple interconnection alternatives because there are both MISO and PJM transmission facilities near the Meldahl site. The first option is a 6-mile 138 kV transmission line, which would not enter Ohio nor cross the Ohio River, and would interconnect to MISO in the Duke Energy transmission system. The second option is a 3-mile 138 kV transmission line that would cross the Ohio River and interconnect with PJM in the Dayton Power & Light transmission system. Generation interconnection requests have been submitted to both PJM and MISO. Once estimated interconnection costs are known for the potential interconnection sites, the preferred interconnection site will be determined. (For more information, see the section entitled, “Interconnection/Transmission Service,” in Appendix H-1).

For purposes of estimating the Participants’ transmission delivery costs, it was assumed that the Project would be interconnected to PJM based on Duke Energy’s request to move from MISO to PJM. Based on FERC’s conditioned approvals of Duke’s and ATSI/First Energy’s requests to move into PJM, the majority of AMP’s members would be located in PJM beginning in 2012. The Meldahl Power Sales Contract between AMP and the Participants states that the Point of Delivery for the Meldahl Project will be the Point of Interconnection of the Project to the regional transmission system (at whichever of the two interconnection alternatives is selected). The Participants will ultimately take delivery at their individual delivery nodes as defined in Appendix C of the Power Sales Contract. Any transmission charges required to deliver capacity and energy from the Project Point of Delivery to the Participant’s delivery nodes will be billed separately as supplemental transmission service charges.

In a Locational Marginal Pricing (“LMP”) market such as PJM and MISO, the supplemental transmission service charges for which the Participants would be responsible include (i) energy market basis differentials caused by congestion and marginal losses from the Project Point of Delivery to the Participant’s delivery nodes and (ii) capacity market basis differentials from the Project Point of Delivery to the Participant’s delivery nodes. To provide an indication of what the congestion and loss costs might be, we have provided a summary of LMPs for the most recent twelve months for nodes of the Participants. The twelve-month averages (from November 2009 through October 2010) of the LMPs are provided in the table below.

12-Month Historical Average LMPs

LMP node	LMP (\$/MWh)	Delta (\$/MWh)
Proxy (Zimmer Gen)	32.46	0.00
CONS.MSCPA LOAD	36.41	3.95
DAY ZONE	37.71	5.25
DECO.AZ ZONE	35.24	2.78
FE.ATSI.AMPO LOAD	34.47	2.01
FE.CPP LOAD	34.70	2.24
AEP ZONE	37.63	5.17
AMP-OHIO AGG.	37.08	4.62
BLUE RIDGE AGG.	41.07	8.61
MISO INTERFACE (PJM)	33.52	1.06
PJM INTERFACE (MISO)	33.32	0.86

Historical price differentials during this period have ranged between approximately \$2.00/MWh and \$5.00/MWh (with the exception of the Blue Ridge Aggregate which is about \$8.50/MWh); however, these differentials can change over time. The addition of the Project itself and other generators, as well as the addition of new transmission facilities will result in changes in congestion from the historical values. It is unknown in which direction basis differentials will change, greater due to increased congestion because of competing generation projects, or lower due to major new transmission investment.

Presently, the PJM Participants purchase their capacity obligations in PJM's Reliability Pricing Market ("RPM"). Once the Meldahl Project is interconnected to PJM with capacity rights, it can sell capacity into the RPM. Revenue from the capacity sales can then be used to offset the Participants' cost of purchasing capacity in the RPM. If at some point in the future the Participants choose to opt out of the RPM and "self-serve" their capacity obligations, the Participants will need to include the Meldahl Project in their network resource designations.

MISO Participants with Network Integration Transmission Service need to modify their transmission service to include the designation of the Project (or a portion thereof) as a Network Resource from the MISO/PJM Interface, and Participants that currently receive power through Point-to-Point service would need to re-direct or ask for additional Firm Point-to-Point service, unless a lower cost and equally reliable method of delivery can be employed by AMP.

In the LMP markets in PJM and MISO, the "basis differential" risks will be borne by the Participants as follows:

- PJM Participants bear the risk of the energy market basis differentials caused by congestion and marginal losses from the Meldahl Project point of interconnection to the regional transmission system to the Participants' delivery nodes.
- MISO Participants bear the risk of the difference in LMPs from the Meldahl Project point of interconnection to the regional transmission system border to their delivery points.
- If available, Financial Transmission Rights ("FTRs") and Auction Revenue Rights ("ARRs"), MISO and PJM market hedging products, may be used to help manage this risk.

- Participants in PJM bear the risk of price differentials in the PJM capacity market prices between Locational Deliverability Areas (“LDAs”) established within PJM. As somewhat analogous to the energy market basis differentials, the capacity market may settle at different prices between the LDAs (i.e., the Participants may have to pay a different, higher price to serve their loads than the revenue they would receive from the capacity of the Meldahl Project delivered to the Participants’ delivery points). This is a risk for any Load Serving Entity meeting its capacity needs from resources outside of its LDA. To date, capacity price differentials have not occurred between the Project LDA and the PJM Participants’ LDAs.

Since the Project’s delivery point is the point at which the Project interconnects to the regional transmission system, an LMP basis differential cost risk has not been reflected in the projected power costs prepared by Sawvel.

## **PARTICIPANT BENEFICIAL USE ANALYSIS**

### **OVERVIEW OF BENEFICIAL USE ANALYSIS**

In accordance with Section 2 (B) (x) of each of the Greenup Project and Meldahl Project Power Sales Contracts, we have prepared an analysis to determine if each Participant can beneficially utilize its combined Greenup Project Share and Meldahl Project Share. This analysis is based on each Participant’s PSCR Shares as shown in Table 1.

We have prepared three types of analyses to determine if each Participant can beneficially utilize its share of the Greenup Project and the Meldahl Project. The three analyses include:

- a comparison of each Participant’s Project Share of the total capacity from the Meldahl Project as a percent of peak demand for selected years,
- an analysis of the impact of adding the Meldahl and Greenup Projects on potential surplus energy as a percentage of total generation and energy purchases, and
- an analysis of each Participant’s projected power costs and risks, with and without its Project Shares of the Meldahl and Greenup Projects.

### **MELDAHL PROJECT SHARES COMPARED TO PEAK DEMAND**

Run-of-the-river hydroelectric power plants, such as the facilities comprising the Meldahl and Greenup Projects, are designed to generate energy when water is available. The average annual capacity factors for the Greenup and Meldahl Project plants are projected to be in the range of 45 to 60 percent. Most utilities plan for around 20-25 percent of their projected peak demand to be supplied from this type of generation.

The Meldahl Project Participants’ actual 2009 peak demand and projected 2015 and 2025 peak demands were compared with their respective shares in the Meldahl Project. Based on this analysis, the results indicate that there are only two Participants with Meldahl Project Shares that exceed 10 percent of their projected peak demand in the years 2015 and 2025. On a total basis, the capacity from the Meldahl

Project is projected to be approximately 5.3 percent of the Participants' aggregate peak demand in 2015 and 4.7 percent in 2025.<sup>11</sup>

If a utility has more generation than its hourly load requirements, it may either reduce the output of the plants online or sell the surplus energy in a given hour. This analysis does not take into consideration other generation that the Participants are expected to have available in the future that could cause surplus energy from existing plants and/or the Meldahl Project. As discussed below, we have prepared a surplus energy analysis and an estimate of the impact on total power supply costs and risks for each Meldahl Participant that reflect the Participant's existing generation and energy under contract, the Greenup Project, the AMP Combined Hydro Projects and the PSEC Project.

### **SURPLUS ENERGY ANALYSIS**

Surplus energy occurs when a Participant has more energy available in any hour from its generating resources than its load requirements. As directed by the Participant, AMP will arrange to sell this surplus energy to other AMP Members and/or to PJM. Since surplus energy is not being utilized by the Participant to serve its load, it is not being "beneficially utilized" by the Participant. Also, because the amount and price paid for surplus energy is uncertain, surplus energy increases the Participant's power supply risk (cost uncertainty). Therefore, we have analyzed the extent to which adding the Meldahl and Greenup Projects to the Participant's existing power supply resources results in an increase in surplus sales as a percent of total generation and energy under contract.

We have prepared stochastic projections of the total power supply cost for the period 2014 – 2049 for each of the Meldahl Participants for two cases. The first case includes the Participant's existing power supply resources, the AMP Combined Hydro Projects and the PSEC Project (the "Existing Portfolio") and the second case includes the Participant's Existing Portfolio and its current Project Shares of the Meldahl and Greenup Projects ("Portfolio with AMP Meldahl and Greenup Projects"). Based on the results of these projections, we computed the amount of the estimated surplus energy sales for the period 2014 – 2035 for each Participant under the Existing Portfolio and under the Portfolio with AMP Meldahl and Greenup Projects. The results of this analysis are summarized below:

- 43 Participants are projected to have surplus energy, on an average annual basis, ranging from less than 1 percent to 20 percent of total generation and energy under contract under both the Existing Portfolio and the Portfolio with AMP Meldahl and Greenup Projects; these Participants comprise approximately 43.8 MW, or 41.7 percent of the Meldahl Project.
- 5 Participants (including Hamilton, with an ownership share of 54.0 MW) are projected to have surplus energy, on an average annual basis, greater than 20 percent of total generation and energy under contract under both the Existing Portfolio and the Portfolio with AMP Meldahl and Greenup Projects; these Participants comprise approximately 61.2 MW, or 58.3 percent of the Meldahl Project.
- On an aggregate weighted average basis, surplus energy under the Existing Portfolio is equal to approximately 16.3 percent of total generation and energy under contract; under the

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<sup>11</sup> Taking into account the expected impact of Energy Efficiency Programs, (i) no additional Participants are expected to have Meldahl Project Shares that exceed 10 percent of their peak demand in years 2015 and 2025, and (ii) the capacity from the Meldahl Project is projected to be approximately 5.5 percent of the Participants' aggregate peak demand in 2015 and 5.2 percent in 2025.

Portfolio with AMP Meldahl and Greenup Projects, surplus energy is equal to approximately 17.2 percent of total generation and energy under contract.

Accordingly, across the majority of the Participants, the addition of Meldahl and Greenup Project Shares does not have a material impact on surplus energy sales as a percent of total generation and energy under contract.

#### **IMPACT OF THE MELDAHL AND GREENUP PROJECTS ON PARTICIPANT COSTS AND RISKS**

As described above, we have prepared stochastic projections of the total power supply cost for the period 2014 – 2049 for each of the Meldahl and Greenup Project Participants under the Existing Portfolio and the Portfolio with the Meldahl and Greenup Project. In addition, we have prepared stochastic projections of the total power supply cost for the period 2014 – 2049 for each of the Meldahl Participants assuming that their respective Meldahl and Greenup Project Shares are increased by 106 percent (with the exception of Hamilton, which was increased by 17 percent) and 25 percent, respectively. We have included this case to analyze the impact on the Participant's costs and risk of the respective percent step-up provisions under the Power Sales Contract for both the Meldahl and Greenup Projects. For more information concerning the step-up provision in the Meldahl Power Sales Contract, see Appendix D to the Official Statement entitled, "SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACT".

The stochastic power cost projections produce a range of costs resulting from the estimated volatility in loads, fuel prices, market prices, and CO<sub>2</sub> costs. Based on this analysis, we have developed an expected average annual cost (annual cost present valued to 2014 and averaged). From the results of the stochastic analysis, we can estimate the uncertainty in future power costs (or risks) by computing the standard deviation in the projected average annual power costs under the 50 scenarios produced by the stochastic model.

The results of the stochastic analysis demonstrate that costs are lower under the Portfolio with AMP Meldahl and Greenup Projects than the Existing Portfolio for all of the Participants except Hamilton. Also, costs are lower under the Portfolio with AMP Meldahl and Greenup Projects, including the step-up provisions, than the Existing Portfolio for all of the Participants except Hamilton.

Hamilton's costs under the Portfolio with AMP Meldahl and Greenup Projects are slightly higher than the Existing Portfolio by approximately two percent on a net present value basis over the period 2014-2049. In addition, Hamilton's costs under the Portfolio with AMP Meldahl and Greenup Projects, including the step-up provision, are slightly higher than the Existing Portfolio. Risks (as measured by the standard deviation) are slightly higher under the Portfolio with AMP Meldahl and Greenup Projects. In addition, risks are slightly higher under the Portfolio with AMP Meldahl and Greenup Projects, including the step-up provision.

For all but three other Participants, risks (as measured by the standard deviation) are lower under the Portfolio with the Meldahl and Greenup Projects than the Existing Portfolio. These three Participants represent approximately 7.1 MW or 6.8 percent of the Meldahl Project capacity (based on the total Project capacity of 105 MW). Also, for all but these same three Participants, risks are lower under the Portfolio with the Meldahl and Greenup Projects, including the step-up provisions, than the Existing Portfolio for all of the Participants. For the same three Participants, upside costs<sup>12</sup>, an alternative measure of risk, are lower under the Portfolio with the Meldahl and Greenup Projects than the Existing Portfolio. Upside

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<sup>12</sup> Upside costs are defined as the 95<sup>th</sup> percentile of power costs.

costs are also lower under the Portfolio with the Meldahl and Greenup Projects, including the step-up provisions, than the Existing Portfolio.

Based on this analysis, all of the Participants' costs except Hamilton are expected to be lower with the Meldahl and Greenup Projects. In the case of Hamilton, costs are slightly higher under the Portfolio with AMP Meldahl and Greenup Projects. The increase in cost for Hamilton does not represent a material difference in cost relative to Hamilton's Existing Portfolio. Accordingly, all of the Participants can beneficially use their share of capacity from the Meldahl Project to meet their base to intermediate load requirements. For a few Participants, surplus sales (as a percentage of total generation) and risks (as measured by the standard deviation of costs) are higher with the Meldahl and Greenup Projects.

### **MARKET COMPARISON ANALYSIS**

For the period 2014 through 2035, we prepared projections of (i) the costs of AMP's ownership and operation of the Meldahl Project and (ii) market prices in the market region in which the facilities comprising the project are located. The Market Comparison Analysis is a projection of the power costs to Participants of the Meldahl Project as compared to the projections of the market price of generating resources with the same load profile as the Meldahl Project in the PJM region in which the Project is located. The market price projections were prepared in July 2010.

### **PROJECTIONS OF PROJECT POWER COSTS**

In developing the projected power costs for the Meldahl Project, R. W. Beck relied primarily on information supplied by Sawvel and AMP.

Based on information provided by Sawvel, the development of the projected power costs for the Meldahl Project was based on an assumed net plant capacity of 105 MW. Based on information provided by AMP, the annual capacity factors for the Meldahl Project were assumed to be approximately 57 percent in all years, and we assumed that the Meldahl Project would be dispatched into the PJM market based on projected hourly load patterns provided by AMP.

The projected operations and maintenance expenses were provided by Sawvel and were based on the latest information provided by MWH Americas, Inc. ("MWH"), AMP's hydroelectric design engineer, at the time of this Report. Projected fixed operating costs relating to the Meldahl Project included expected annual costs for labor, fixed operations and maintenance expenses, spare parts, major maintenance, contingencies and administrative and overhead costs. Projected variable costs associated with the Meldahl Project included transmission charges that will be included in Project costs as defined in the Power Sales Contracts.

For the purpose of the projected power costs, we assumed that the Meldahl Project will be placed in service by July 15, 2014, based on AMP's current projection.

### **PROJECTED FINANCING REQUIREMENTS AND NET DEBT SERVICE**

The estimated capital costs for construction of the Meldahl Project were provided by Sawvel, based on information provided by AMP. See the section of Appendix H-1 to the Official Statement entitled "CONSULTING ENGINEER'S REPORT".



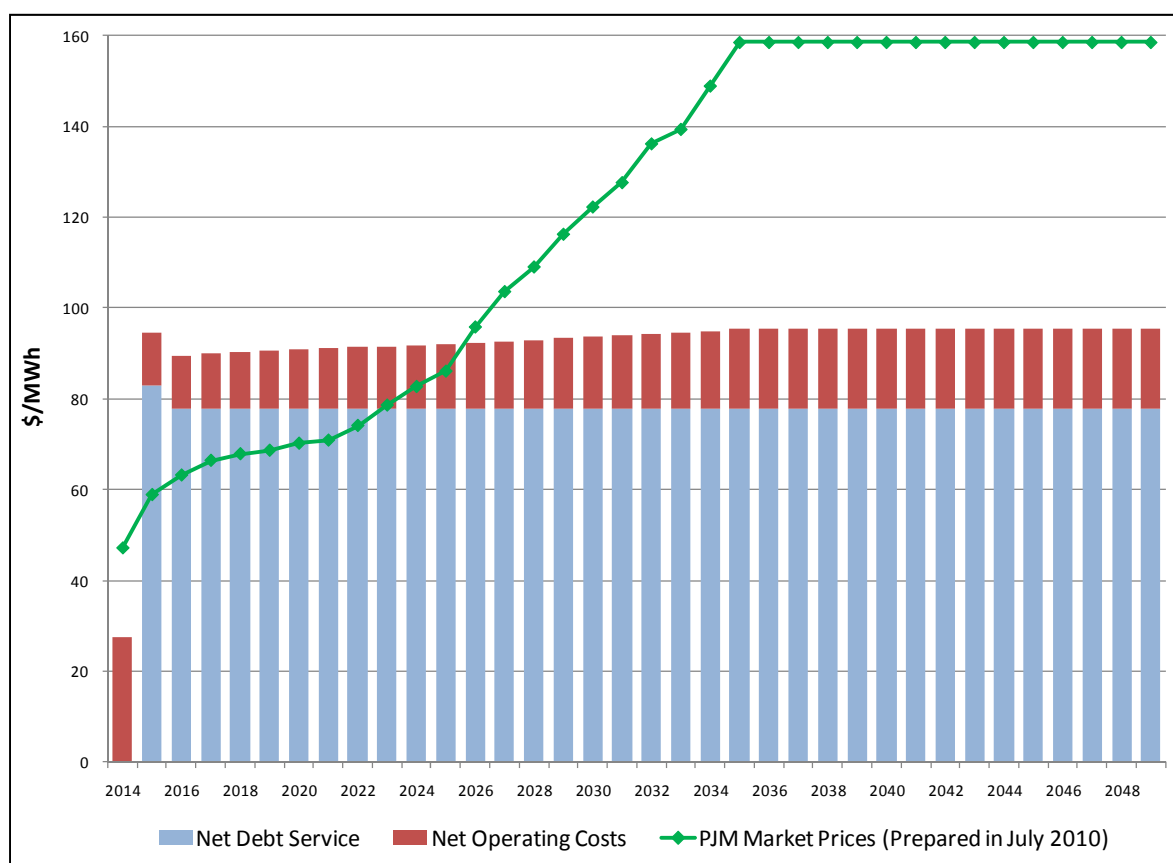
The projected financing requirements for the Project are based on a plan of finance that AMP has developed to finance the Meldahl Project. See the section in the Official Statement entitled “PLAN OF FINANCE.” Based on a plan of finance developed by AMP, Wells Fargo Securities prepared a projection of the financing requirements for the Project, including estimates of the deposits to the Construction Fund, deposits to the Capitalized Interest Account, deposits to a Debt Service Reserve Account, and the costs of issuance and other expenses. Such estimates were prepared in December 2010 based on then existing market conditions, and the results could vary depending upon market conditions prevailing at the time AMP completes the financing of the cost of construction of the Project.

The total estimated par amount of Bonds that will be required by AMP to finance the Meldahl Project, including construction costs, capitalized interest, deposits to a Debt Service Reserve Account, original issue discount and bond issuance expenses is estimated to be approximately \$685.1 million. As discussed in the section in the Official Statement entitled “PLAN OF FINANCE,” AMP will finance all of the capital requirements of the Meldahl Project through issuance of the Series 2010 Bonds. AMP’s Plan of Finance assumes that interest during construction will be capitalized as needed from the proceeds of the Series 2010 Bonds until 6 months beyond the expected completion date of the Meldahl Project, July 15, 2014.

Based on the estimated amount of bonds, projected debt service schedules and interest earnings provided by AMP, the average annual debt service net of interest earnings is estimated to be approximately \$40.6 million per year over the period 2015-2049.

#### **AVERAGE PROJECT COSTS AND COMPARISON TO THE MARKET**

We have prepared a projection of the average Project costs of the Meldahl Project over the period 2014 through 2049. The projected average annual Project costs are summarized by major component through 2035 in Table 3 and through 2049 in Figure 1. The major components of the Project costs include: (i) net debt service, which represents approximately 84 percent of total costs, and equals the total annual debt service payments less interest earnings and federal interest subsidies; and (ii) total operating costs, which represent approximately 16 percent of the total costs of the Meldahl Project.



**Figure 1 - Comparison of Projected Meldahl Project Costs and Market Prices**

Also shown in Figure 1 and summarized in Table 3 are projections of the average price of power and energy (at the same capacity factor as the Projects) from the PJM market in the region in which the Meldahl Project is located. These average power prices are based on projections of hourly energy prices and average annual capacity prices over the period 2014 through 2035 and were developed in July 2010. The projected market prices were based on, among other things, projections of fuel costs, environmental costs (including projected CO<sub>2</sub> costs), the estimated costs of existing and future generating resources, and projected economic retirements and additions of generating resources over the period 2014 through 2035. The major assumptions related to the market price projections are set forth below in the section of this Report entitled “Principal Considerations and Assumptions.” The projected cost of fuel, energy and capacity are summarized in Table 3. Projected net debt service and net operating costs for the Meldahl Project and projected market prices were held constant at 2035 levels over the period 2036 through 2049.

As shown in Figure 1, the projected average annual costs of the Meldahl Project are estimated to be somewhat higher than projected market costs over the period 2015 through 2025 but lower in all other years.

Market prices are heavily dependent on natural gas prices, both of which historically have exhibited extreme volatility. As shown in Figure 2, based on information provided by AMP, the average quarterly gas prices measured at Henry Hub have varied from approximately \$4.40/MMBtu to \$13.30/MMBtu over the period January 1, 2005 to September 30, 2010. Based on information obtained from Ventyx’s Velocity Suite® database, the historical market prices as measured by the 5x16 average quarterly on-peak

energy prices and 7x24 average quarterly energy prices at the AEP-Dayton Hub have varied from approximately \$33.20/MWh to \$76.90/MWh and \$28.50/MWh to \$57.70/MWh, respectively, over the same period. Our projections for both natural gas prices and energy prices have decreased over the past year to reflect the expectation that increased gas supply as a result of shale gas extraction will cause these prices to be lower over the forecast period than were previously anticipated.

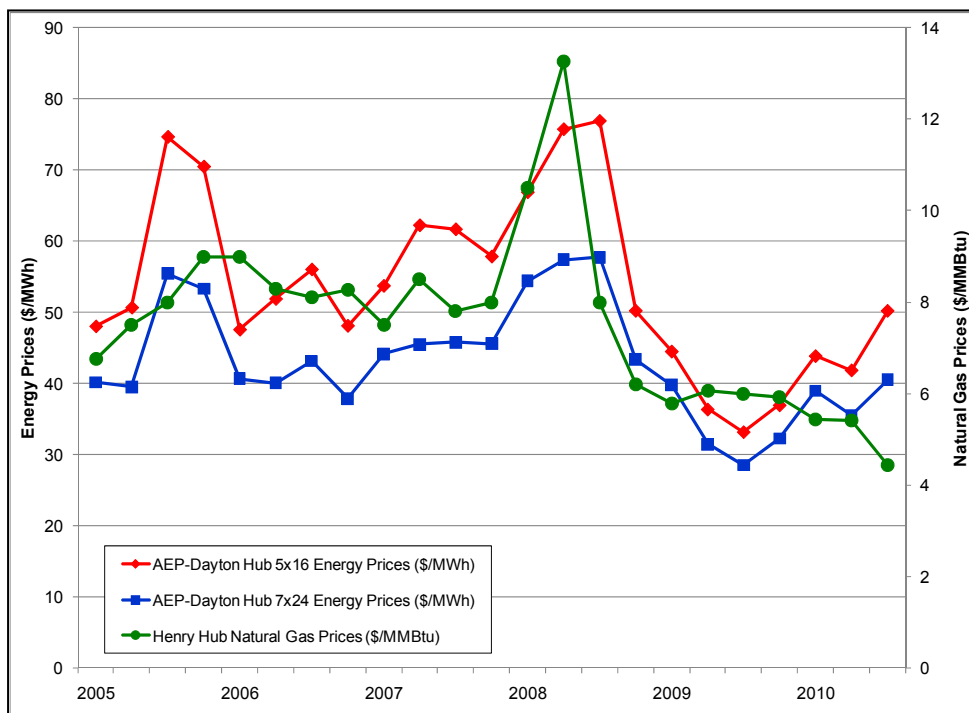


Figure 2 – Average Quarterly Historical Natural Gas and Energy Prices

## PRINCIPAL CONSIDERATIONS AND ASSUMPTIONS

In the preparation of this Report and the conclusions that follow, we have made certain assumptions with respect to conditions that may occur in the future. While we believe these assumptions are reasonable for the purpose of this Report, they are dependent upon future events and actual conditions may differ from those assumed herein. In addition, we have used and relied upon certain information and assumptions provided to us by others, but have not independently verified the information and offer no assurances with respect thereto. We believe the use of such information and assumptions is reasonable for the purposes of this Report. However, some assumptions will invariably not materialize due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those forecasted to the extent that actual future conditions differ from those assumed by us or from information or assumptions provided to us by others.

The principal considerations and assumptions made by us and the principal information and assumptions provided to us by others include the following:

1. The projections of demand and energy requirements for the period 2010 through 2035 for the 48 Meldahl Participants were based on load forecasts prepared by R. W. Beck in August 2010. In aggregate, the Meldahl Participants' demand and energy requirements are projected to increase at a compound average annual growth rate of 1.3 percent, over the period 2009 through 2035. The

methodology, data sources, and major assumptions relied on to develop the load forecasts are provided below.

- a) The load forecast for each Participant is based primarily on a multiple regression model that relates energy and demand requirements to some combination of population, per capital income, gross regional product, and weather conditions in the vicinity of the Participant.
  - b) Adjustments to results for certain Participants were made based on AMP's knowledge of local factors affecting such Participants' future peak demand and energy requirements.
  - c) Projected economic data were provided by a nationally-recognized economics firm specializing in such projections.
  - d) Normal weather conditions are assumed to prevail over the forecast period.
  - e) The future influence on energy requirements of the economic, demographic, and weather variables, on which the regression models are based, is assumed to be similar to the influence of such factors estimated over the recent historical period.
  - f) The recent historical averages of relationships between energy requirements and peak demand are assumed to represent reasonable approximations of the future values of such load relationships.
  - g) The load forecast utilized in the Beneficial Use Analysis reflects AMP's assumption that all the Meldahl Participants will subscribe to and participate in all 10 of the Energy Efficiency Programs, which are estimated to reduce projected energy requirements by approximately three percent in 2015 and eight percent in 2025, based on information provided by AMP.
  - h) It was assumed that any changes in the current regulatory or competitive environment would not materially affect the forecast of demand and energy requirements for the Participants through 2035.
2. General inflation was based on the consensus projections prepared by Blue Chip Economic Indicators in March 2010. The Blue Chip forecast reflects the impacts of the economic recession that began in 2008 and a projected long-term average rate of inflation of 2.4 percent annually over the period 2010 through 2035.
3. Operating characteristics and costs of the Meldahl Project were assumed to be as follows:
  - a) The facility will consist of run-of-the-river hydroelectric generating units with a nominal rating of 105.0 MW.
  - b) The in-service date will occur in July 2014.
  - c) Based on information provided by AMP, the projected output of the Meldahl Project is estimated to result in average annual capacity factors of 57 percent in each year.
  - d) Operation and maintenance costs for the Project were estimated by Sawvel.
4. The principal installments and debt service schedules for each series of estimated bonds to finance the Meldahl Project are based on AMP's Plan of Finance, which is discussed in the section in the Official Statement entitled "PLAN OF FINANCE" and reflects the following assumptions:

- a) A total of approximately \$685.1 million of long-term debt would be required to fund the total estimated cost of construction of the Meldahl Project including the amounts required to fund capitalized interest, reserves and issuance expenses.
  - b) Subsequent to the issuance of the Series 2010A-D Bonds, AMP will issue the Series 2010E Taxable BABs in a principal amount of approximately \$355 million during December 2010.
  - c) Principal installments for the Series 2010 Bonds would begin in 2015 and debt service payments (principal and interest) would be based on level debt service over 2015 through 2049.
  - d) Interest earnings rates on monies in funds and accounts would range from 0.40 to 1.60 percent.
5. AMP will acquire its share of the Greenup Project for a purchase price of \$139 million and issue, in September 2014, an estimated \$155.78 million in bonds with principal installments to begin in 2015. Debt service payments (principal and interest) would be based on level debt service over the 30-year period 2015 through 2045 with assumed average annual interest rate of 5.25 percent.
6. The Participant Meldahl Project Shares set forth on the attached Table 2 and in Appendix A of the Official Statement will remain unchanged.
7. The projections for the period 2010 through 2035 of market prices in the PJM West region are based on the following:
- a) A required reserve margin of 15 percent.
  - b) The projections reflect transmission transfer limits between regions, in terms of both energy and capacity, based on estimates prepared by R. W. Beck as of March 2010.
  - c) Natural gas prices, which are an average of projected delivered gas prices within the region, are based on R. W. Beck's second quarter 2010 forecast.
  - d) The forecast of average delivered coal prices within the region is based on coal industry data on supply and transportation cost forecasts provided by the mining consulting firm John T. Boyd Company.
  - e) Projections of SO<sub>2</sub> and NO<sub>x</sub> allowance prices were prepared by R. W. Beck based on its proprietary forecasting model.
  - f) The market price projections reflect assumed climate change legislation and projected CO<sub>2</sub> allowance costs. R. W. Beck has a proprietary green house gas ("GHG") model that captures the relationship between CO<sub>2</sub> allowance prices, power demand and prices, gas demand and gas prices, and other fuel demand and prices. The model simulates the energy industry response to an assumed CO<sub>2</sub> allowance price, including gas consumption (and gas price response), CO<sub>2</sub> emissions, and demand response. A key environmental driver is the assumption for electric utility CO<sub>2</sub> caps, which are based generally on the most recent bill passed associated with CO<sub>2</sub> legislation. The U. S. House of

Representatives passed H.R. 2454, the American Clean Energy and Security Act of 2009 (ACES), on June 26, 2009. This bill was sponsored by Energy and Commerce Committee Chair Henry Waxman and Energy and Environment Subcommittee Chair Ed Markey (referred to herein as “ACES” or the “Waxman-Markey Bill”). The Waxman-Markey Bill is a comprehensive energy bill that includes a cap-and-trade program designed to reduce economy-wide, greenhouse gas emissions to 17 percent below 2005 levels by 2020, increasing to 83 percent below 2005 levels by 2050. Other provisions include new renewable requirements for utilities, studies and incentives regarding new carbon capture and sequestration technologies, energy efficiency incentives for homes and buildings, and grants for green jobs, among other things. On May 12, 2010, Senators John Kerry and Joseph Lieberman released their draft climate change bill, entitled the American Power Act (referred to herein as the “Kerry-Lieberman Bill”). The draft bill addresses the impacts of climate change and the benefits of transitioning to a clean energy economy and establishes targets for reducing global warming pollution. The Kerry-Lieberman Bill is similar to the Waxman-Markey Bill and includes provisions for (i) renewable energy resource standards and energy efficiency standards and (ii) the regulation of CO<sub>2</sub> and other greenhouse gas emissions in a cap-and-trade system with declining free allowances to limit emissions to 4.75 percent below the 2005 level beginning 2013, 17 percent below the 2005 level beginning 2020, 42 percent below the 2005 level beginning 2030, and 83 percent below the 2005 level beginning 2050. Estimated CO<sub>2</sub> costs have been based on an analysis of the proposed Kerry-Lieberman Bill. CO<sub>2</sub> allowance costs are estimated to be \$11/ton beginning in 2015, increasing to approximately \$30/ton by 2025 and \$92/ton by 2035.

- g) The projected capital costs and operating costs of new generating resources are based on R. W. Beck’s second quarter 2010 forecast. The projected capital costs include construction costs, capitalized interest, transmission interconnection costs and an allowance for other owner’s costs. The financial assumptions for peaking and combined cycle units are based on the capital structure of developers for merchant plants, whereas the base-load resource assumptions are based on the capital structure of regulated utilities in the region.
  - h) The projections reflect regional estimates of technically feasible renewable resources for PJM West that are based on a combination of state-level standards and goals in place as of December 2009 and the guidelines included in the proposed Kerry-Lieberman Bill.
8. The projections for the period 2036 through 2049 assume that the projected market prices and net operating costs for Meldahl and Greenup Projects are equal to the 2035 values.

The power cost projections herein have been prepared based on the assumption that all contracts, agreements, statutes, rules and regulations (hereinafter described as “contractual and legal requirements”) that have been relied upon by R. W. Beck in preparing these projections will be fully enforceable in accordance with their terms and conditions. We make no representations or warranties, and provide no opinion, concerning the enforceability or legal interpretation of such contractual and legal requirements.

The power costs set forth in this Report have been projected assuming no significant changes in the electric utility industry (other than those set forth under Assumption 8) through the year 2035. Due to uncertainties caused by variable factors, including factors that influence the cost of all energy sources, we

can give no assurance as to the reasonableness of the rates of escalation with respect to fuel costs and operating costs. Additionally, changes in costs, technology, legislation and regulation could affect the considerations and assumptions. In particular, future fuel cost and environmental factors could affect the assumptions set forth herein. In summary, any changes in costs, technology, legislation and regulation could affect the considerations and assumptions, which could impact the results of the projected power costs. For discussions of regulation, competition and other factors affecting the electric utility industry, see the section in the Official Statement entitled "CERTAIN FACTORS AFFECTING AMP, THE PARTICIPANTS AND THE ELECTRIC UTILITY INDUSTRY".

### **CONCLUSIONS**

Based upon the foregoing principal considerations and assumptions and upon the studies and analyses as summarized or discussed in this Report, which Report should be read in its entirety in conjunction with the following, we are of the opinion that:

1. Relative to the projected market prices in the region where the Meldahl Project will be located, the Meldahl Project represents a reasonable cost, long-term, intermediate to base-load power supply option for the Participants.
2. The amounts of capacity and energy from the Meldahl Project, after giving effect to the sale of a portion of each Project's output in the short-term energy market, can be beneficially utilized by the Participants in serving their respective long-range intermediate to base-load power and energy requirements.

We have reviewed the Official Statement to which this Report is appended and, in our opinion, the information presented therein, which is taken from our Report or which otherwise is attributed to us, is accurately presented.

Respectfully submitted,

/s/ R. W. Beck, Inc.

**AMP**  
**Meldahl Project**  
**Participant Shares in AMP New Resources**

Participant [1]	Shares of AMP New Resources				
	Meldahl Project	Greenup Project	AMP Combined		Total
	(MW)	(MW)	Hydro Projects (MW)	PSEC Project (MW)	(MW)
1 Amherst	0.756	0.495	2.398	4.976	8.625
2 Arcanum	0.136	0.089	0.400	1.194	1.819
3 Bowling Green	3.043	1.993	19.986	35.000	60.022
4 Bryan	1.386	0.923	1.800	7.500	11.609
5 Carey	0.411	0.272	1.800	1.990	4.473
6 Cleveland	9.000	6.000	35.000	24.880	74.880
7 Clinton, MI [2]	0.111	0.072	0.700	-	0.883
8 Coldwater, MI [2]	1.794	1.175	6.496	9.952	19.417
9 Columbiana	0.076	0.050	1.899	4.379	6.404
10 Danville, VA	5.039	3.299	22.084	49.760	80.182
11 Dover	1.401	0.917	5.197	4.976	12.491
12 Eldorado	0.025	0.016	0.100	0.199	0.340
13 Front Royal, VA [3]	1.573	1.045	1.800	5.971	10.389
14 Greenwich	0.206	0.135	0.500	0.498	1.339
15 Hamilton	54.000	-	-	35.000	89.000
16 Haskins	0.071	0.046	-	-	0.117
17 Hillsdale, MI [2]	0.731	0.479	3.398	-	4.608
18 Hubbard	0.353	0.231	1.299	1.294	3.177
19 Hudson	0.504	0.330	-	9.952	10.786
20 Jackson	0.826	0.541	3.598	8.161	13.126
21 Jackson Center	0.020	0.013	0.500	1.393	1.926
22 Lakeview	0.005	0.003	0.200	0.796	1.004
23 Lucas	0.015	0.010	0.100	-	0.125
24 Marshall, MI [2]	0.594	0.389	2.798	1.990	5.771
25 Mendon	0.030	0.020	0.100	0.398	0.548
26 Napoleon	0.504	0.330	3.498	4.976	9.308
27 New Bremen	0.025	0.016	0.700	5.971	6.712
28 New Knoxville	0.060	0.039	0.300	0.149	0.548
29 Newton Falls	0.232	0.152	1.299	1.990	3.673
30 Niles	0.050	0.480	1.800	2.886	5.216
31 Oberlin	0.504	0.330	2.598	-	3.432
32 Orrville	3.526	2.308	5.896	4.976	16.706
33 Paducah, KY [4]	4.530	3.020	7.550	103.766	118.866
34 Piqua	1.199	0.785	5.996	19.904	27.884
35 Plymouth	0.080	0.053	0.300	0.498	0.931
36 Princeton, KY [4]	0.870	0.580	1.450	19.955	22.855
37 Prospect	0.045	0.030	0.200	0.100	0.375
38 Seville	0.486	0.323	1.800	-	2.609
39 Shelby	0.559	0.366	2.598	3.981	7.504
40 Sycamore	0.030	0.020	0.200	0.299	0.549
41 Tipp City	0.715	0.469	3.598	9.952	14.734
42 Versailles	0.383	0.251	1.099	3.981	5.714
43 Wadsworth	3.953	2.623	1.800	-	8.376
44 Wapakoneta	1.618	1.074	1.800	2.986	7.478
45 Waynesfield	0.060	0.039	0.200	0.498	0.797
46 Wellington	0.060	0.039	1.599	3.981	5.679
47 Wyandotte, MI	1.763	1.155	-	-	2.918
48 Yellow Springs	1.642	1.075	0.799	-	3.516
Totals	105.000	34.100	159.233	401.108	699.441

[1] Members are Ohio municipalities, except as otherwise noted.

[2] Members of Michigan South Central Power Agency that are also Members of AMP.

[3] Members of Blue Ridge Power Agency that are also Members of AMP.

[4] Members of KMPA and AMP but participating in PSEC Project through KMPA.



**AMP**  
**Meldahl Project**  
**Participant Peak Demand and Project Share Amounts in Megawatts<sup>[1]</sup>**

Participant [2]	2009 Peak Demand (MW)	2015 Peak Demand (MW)	2025 Peak Demand (MW)	Shares of Meldahl Project (MW)	Share as % of Peak Demand in Year:		
					2009	2015	2025
1 Amherst	26.367	31.224	38.009	0.756	2.9%	2.4%	2.0%
2 Arcanum	5.198	4.782	4.953	0.136	2.6%	2.8%	2.7%
3 Bowling Green	99.115	103.857	135.021	3.043	3.1%	2.9%	2.3%
4 Bryan	42.709	46.057	54.217	1.386	3.2%	3.0%	2.6%
5 Carey	14.029	13.592	14.589	0.411	2.9%	3.0%	2.8%
6 Cleveland	289.600	323.707	378.475	9.000	3.1%	2.8%	2.4%
7 Clinton, MI [4]	5.169	5.227	5.486	0.111	2.1%	2.1%	2.0%
8 Coldwater, MI [4]	55.565	59.822	73.101	1.794	3.2%	3.0%	2.5%
9 Columbiana	15.485	17.795	21.858	0.076	0.5%	0.4%	0.3%
10 Danville, VA	217.570	235.858	267.189	5.039	2.3%	2.1%	1.9%
11 Dover	44.765	50.781	57.547	1.401	3.1%	2.8%	2.4%
12 Eldorado	1.117	1.199	1.402	0.025	2.2%	2.1%	1.8%
13 Front Royal, VA [3]	39.845	47.147	53.904	1.573	3.9%	3.3%	2.9%
14 Greenwich	3.673	3.859	4.613	0.206	5.6%	5.3%	4.5%
15 Hamilton	139.000	153.254	154.113	54.000	38.8%	35.2%	35.0%
16 Haskins	1.608	1.749	2.359	0.071	4.4%	4.1%	3.0%
17 Hillsdale, MI [4]	27.172	28.408	30.125	0.731	2.7%	2.6%	2.4%
18 Hubbard	14.070	13.939	14.124	0.353	2.5%	2.5%	2.5%
19 Hudson	42.049	46.983	51.154	0.504	1.2%	1.1%	1.0%
20 Jackson	33.027	33.979	37.238	0.826	2.5%	2.4%	2.2%
21 Jackson Center	4.253	3.872	4.019	0.020	0.5%	0.5%	0.5%
22 Lakeview	2.552	2.761	3.148	0.005	0.2%	0.2%	0.2%
23 Lucas	0.840	0.821	0.835	0.015	1.8%	1.8%	1.8%
24 Marshall, MI [4]	23.082	23.382	24.571	0.594	2.6%	2.5%	2.4%
25 Mendon	1.434	1.332	1.353	0.030	2.1%	2.3%	2.2%
26 Napoleon	30.421	31.339	34.453	0.504	1.7%	1.6%	1.5%
27 New Bremen	12.438	11.929	12.290	0.025	0.2%	0.2%	0.2%
28 New Knoxville	2.450	2.478	3.041	0.060	2.4%	2.4%	2.0%
29 Newton Falls	10.075	9.647	9.997	0.232	2.3%	2.4%	2.3%
30 Niles	63.196	66.660	70.010	0.050	0.1%	0.1%	0.1%
31 Oberlin	20.748	21.453	21.830	0.504	2.4%	2.3%	2.3%
32 Orrville	55.777	59.886	61.019	3.526	6.3%	5.9%	5.8%
33 Paducah, KY	148.065	171.788	198.926	4.530	3.1%	2.6%	2.3%
34 Piqua	60.000	66.189	74.281	1.199	2.0%	1.8%	1.6%
35 Plymouth	2.754	2.992	3.293	0.080	2.9%	2.7%	2.4%
36 Princeton, KY	24.551	25.477	27.646	0.870	3.5%	3.4%	3.1%
37 Prospect	2.121	2.199	2.329	0.045	2.1%	2.0%	1.9%
38 Seville	14.088	15.211	16.342	0.486	3.4%	3.2%	3.0%
39 Shelby	23.698	24.259	26.492	0.559	2.4%	2.3%	2.1%
40 Sycamore	1.457	1.422	1.565	0.030	2.1%	2.1%	1.9%
41 Tipp City	29.354	29.993	34.278	0.715	2.4%	2.4%	2.1%
42 Versailles	13.813	14.501	17.761	0.383	2.8%	2.6%	2.2%
43 Wadsworth	59.382	62.043	71.362	3.953	6.7%	6.4%	5.5%
44 Wapakoneta	31.847	34.259	38.591	1.618	5.1%	4.7%	4.2%
45 Waynesfield	2.272	2.202	3.022	0.060	2.6%	2.7%	2.0%
46 Wellington	13.570	14.410	17.710	0.060	0.4%	0.4%	0.3%
47 Wyandotte, MI	57.700	59.161	60.630	1.763	3.1%	3.0%	2.9%
48 Yellow Springs	7.460	7.305	7.305	1.642	22.0%	22.5%	22.5%
Totals [5]	1,836.537	1,992.191	2,247.575	105.000	5.7%	5.3%	4.7%

[1] Peak demands are shown prior to accounting for Energy Efficiency programs, which on average are expected to reduce peak demand in 2015 by approximately 3% and in 2025 by approximately 10%.

[2] Members are Ohio municipalities, except as otherwise noted.

[3] Members of Blue Ridge Power Agency that are also Members of AMP.

[4] Members of Michigan South Central Power Agency that are also Members of AMP.

[5] Accounting for the Energy Efficiency program impacts, the shares of Meldahl as a percent of peak demand are expected to be somewhat higher than shown above, 5.5% in 2015 and 5.2% in 2025.

AMP  
Meldahl Project  
Projection of Resource Costs v. Market Costs <sup>[1]</sup>

Description	2014 <sup>[2]</sup>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>MELDAHL HYDRO PROJECT:</b>												
1 Capacity												
2 Capacity Factor	MW	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0
3 Net Generation	%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%	57%
	GWh	261.1	522.3	522.3	522.3	522.3	522.3	522.3	522.3	522.3	522.3	522.3
4 Net Debt Service	\$000	-	43,394	40,638	40,638	40,638	40,638	40,638	40,638	40,638	40,638	40,638
5 Operation & Maintenance	\$000	994	2,047	2,108	2,172	2,237	2,304	2,444	2,518	2,593	2,671	2,751
6 Insurance, Taxes & Fees	\$000	1,566	3,149	3,166	3,185	3,204	3,223	3,264	3,286	3,308	3,331	3,354
7 Renewals, Replacements, and Working Capital	\$000	4,351	248	234	524	539	555	587	604	622	640	658
8 Transmission Costs	\$000	0	0	0	0	0	0	0	0	0	0	0
9 Meldahl Overhead Adder	\$000	261	538	554	571	588	605	642	662	681	702	723
10 Total Costs	\$000	\$7,172	\$49,375	\$46,701	\$47,089	\$47,206	\$47,326	\$47,576	\$47,707	\$47,842	\$47,981	\$48,124
11 Meldahl Total Costs	\$/MWh	27.46	94.54	89.42	90.16	90.38	90.61	91.09	91.34	91.60	91.87	92.14
<b>PJM MARKET POWER COSTS <sup>[3]</sup>:</b>												
12 PJM-West Capacity Price	\$/kW-yr	22.21	22.12	24.80	29.45	30.70	32.82	33.06	32.67	33.24	33.72	29.27
13 PJM-West Energy Price	\$/MWh	42.61	54.40	58.18	60.48	61.68	62.03	64.22	67.52	71.92	75.91	80.20
14 Total Cost of Meldahl at Market Prices <sup>[4]</sup>	\$000	\$12,293	\$30,733	\$32,990	\$34,681	\$35,440	\$35,843	\$37,011	\$38,697	\$41,051	\$43,189	\$44,960
15 PJM Market Costs at Resource Capacity Factor	\$/MWh	47.07	58.84	63.16	66.40	67.86	68.63	70.18	74.09	78.60	82.69	86.08

[1] Debt service and operating costs based on information provided by Sawvel and Associates.

[2] Six months of operation (July through December).

[3] Assumes climate change legislation effective January 1, 2015; see section entitled "Principal Considerations and Assumptions" for further information.

[4] Reflects the average market price in PJM of the capacity and energy of the Meldahl resource (i.e., at the Meldahl capacity factor).

AMP  
Meldahl Project  
Projection of Resource Costs v. Market Costs <sup>[1]</sup>

Description	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>MELDAHL HYDRO PROJECT:</b>										
1 Capacity										
2 Capacity Factor	MW	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0	105.0
3 Net Generation	%	57%	57%	57%	57%	57%	57%	57%	57%	57%
	GWh	522.3	522.3	522.3	522.3	522.3	522.3	522.3	522.3	522.3
4 Net Debt Service	\$000	40,638	40,638	40,638	40,638	40,638	40,638	40,638	40,638	40,638
5 Operation & Maintenance	\$000	2,834	2,919	3,006	3,096	3,189	3,383	3,485	3,589	3,697
6 Insurance, Taxes & Fees	\$000	3,378	3,403	3,428	3,455	3,482	3,538	3,568	3,598	3,630
7 Renewals, Replacements, and Working Capital	\$000	678	697	718	738	760	805	828	853	878
8 Transmission Costs	\$000	0	0	0	0	0	0	0	0	0
9 Meldahl Overhead Adder	\$000	745	767	790	814	838	889	916	943	972
10 Total Costs	\$000	\$48,272	\$48,423	\$48,580	\$48,741	\$48,907	\$49,078	\$49,254	\$49,435	\$49,622
	\$/MWh	92.42	92.71	93.01	93.32	93.64	93.97	94.30	94.65	95.01
11 Meldahl Total Costs	\$/MWh									95.38
<b>PJM MARKET POWER COSTS <sup>[3]</sup>:</b>										
12 PJM-West Capacity Price	\$/kW-yr	40.49	41.36	37.87	50.78	54.33	46.48	55.45	48.93	62.36
13 PJM-West Energy Price	\$/MWh	87.68	95.31	101.45	106.07	111.37	118.33	125.09	129.58	136.44
14 Total Cost of Meldahl at Market Prices <sup>[4]</sup>	\$000	\$50,046	\$54,123	\$56,965	\$60,731	\$63,873	\$66,684	\$71,153	\$72,816	\$77,808
	\$/MWh	95.82	103.63	109.07	116.28	122.30	127.68	136.23	139.42	148.98
15 PJM Market Costs at Resource Capacity Factor	\$/MWh									158.60

## APPENDIX I

### PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered as of December \_\_, 2010 by American Municipal Power, Inc. (“AMP”) in connection with the issuance of its Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable), Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds), Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewable Energy Bonds), and Series 2010D (Tax-Exempt) (collectively, the “Series 2010A-D Bonds”). The Series 2010A-D Bonds are being issued pursuant to a Master Trust Indenture, dated as of October 1, 2010 (the “Master Trust Indenture”), as supplemented by the First Supplemental Indenture (the “First Supplemental Indenture”), the Second Supplemental Indenture (the “Second Supplemental Indenture”), the Third Supplemental Indenture (the “Third Supplemental Indenture”), and the Fourth Supplemental Indenture (the “Fourth Supplemental Indenture” and, together with the First Supplemental Indenture, the Second Supplemental Indenture, and the Third Supplemental Indenture, the “Series 2010 Supplemental Indentures”) each dated as of October 1, 2010 and between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee (the “Trustee”) in each such case in substantially the form thereof heretofore provided to the Participating Underwriters. The Master Trust Indenture, as so supplemented, is herein called the “Indenture”. AMP covenants and agrees as follows:

**1. PURPOSE OF THE DISCLOSURE AGREEMENT.** This Disclosure Agreement is being executed and delivered by AMP for the benefit of the holders of the Series 2010A-D Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). AMP acknowledges that it is undertaking responsibility for any reports, notices or disclosures that may be required under this Agreement. AMP and its officials and its employees shall have no liability by reason of any act taken or not taken by reason of this Disclosure Agreement except to the extent required for the agreements contained in this Disclosure Agreement to satisfy the requirements of the Rule.

**2. DEFINITIONS.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by AMP pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean, for purposes of this Disclosure Agreement, any person who is a beneficial owner of a Series 2010 Bond.

“Dissemination Agent” shall mean AMP, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by AMP and which has filed with AMP a written acceptance of such designation.

“EMMA” means the Electronic Municipal Market Access system for municipal securities disclosure (<http://emma.msrb.org>) or any other single dissemination agent or conduit required, designated or permitted by the SEC.

“Filing Date” shall have the meaning given to such term in Section 3.1 hereof.

“Fiscal Year” shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, AMP’s and each MOP’s Fiscal Year begins January 1 and continues through December 31 of the same calendar year, with the exception of the City of Danville,

Virginia and the Electric Plant Board of the City of Paducah, Kentucky, whose Fiscal Years begin on July 1 and end June 30 of the following calendar year as specified in Section 4 hereof.

“Listed Events” shall mean, with respect to the Series 2010A-D Bonds, any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

“Listed Events” shall mean, with respect to the Series 2010A-D Bonds, any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for AMP or an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of AMP or an obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of AMP;

- (13) The consummation of a merger, consolidation, or acquisition involving AMP or an obligated person or the sale of all or substantially all of the assets of AMP or an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any

such actions, other than pursuant to its terms, if material; and

- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

“MOP” shall mean an “obligated person” within the meaning of the Rule. Each of the cities of Hamilton, Ohio; Cleveland, Ohio; Danville, Virginia; Electric Plant Board of the City of Paducah, Kentucky; Wadsworth, Ohio; and Orrville, Ohio, is deemed a MOP.

“MSRB” means the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

“Official Statement” shall mean the Official Statement dated December 2, 2010 relating to the Series 2010A-D Bonds.

“Participating Underwriter” shall mean each original Underwriter of the Series 2010A-D Bonds required to comply with the Rule in connection with the offering of such Series 2010A-D Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

### **3. PROVISION OF ANNUAL REPORTS.**

3.1 AMP shall, or shall cause the Dissemination Agent to, provide to the MSRB via EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the “Filing Date”) that is not later than November 30 of the succeeding Fiscal Year commencing with the report for the fiscal year ending December 31, 2010. Not later than ten (10) days prior to the Filing Date, AMP shall provide the Annual Report to the Dissemination Agent (if applicable). In such case, the Annual Report must be submitted in electronic format and accompanying information as prescribed by the MSRB and (i) may be submitted as a single document or as separate documents comprising a package, (ii) may include by specific reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

3.2 The annual financial statements of the MOPs shall be prepared on the basis of generally accepted accounting principles or such other manner of presentation as may be required by law, will be copies of the audited annual financial statements and will be filed with the MSRB when they become publicly available. Such annual financial statements may be filed separately from the Annual Report.

3.3 If AMP or the Dissemination Agent (if applicable) fails to provide an Annual Report to the MSRB by the date required in subsection (a) hereto AMP or the Dissemination Agent, if applicable, shall send a notice to the MSRB in substantially the form attached hereto as Exhibit B.

**4. CONTENT OF ANNUAL REPORTS.** Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, (i) an updated table presenting the Participants and their allocation in the Project expressed in kilowatts and percentages as shown on page A-1 of the Official Statement, and (ii) with respect to the MOPs, annual statistical and

financial information, including operating data as described in Exhibit A attached hereto. For purposes of the Annual Report, it is recognized that the fiscal years of the City of Danville, Virginia and the Electric Plant Board of the City of Paducah, Kentucky begin on July 1 and end on June 30 of the following calendar year and, as such, annual statistical and financial information for such City or Board will be as of the end of its fiscal year.

Any or all of such information may be included by specific reference from other documents, including offering memoranda of securities issues with respect to which AMP or a MOP is an “obligated person” (within the meaning of the Rule), which have been filed with the MSRB via EMMA or the Securities and Exchange Commission. If the document included by specific reference is a final Official Statement, it must be available from the MSRB via EMMA. AMP shall clearly identify each such other document so included by specific reference.

**5. REPORTING OF LISTED EVENTS.** AMP will provide notice of any of the Listed Events to the MSRB via EMMA in a timely manner not in excess of ten business days after the occurrence of the event. Whenever AMP obtains knowledge of the occurrence of a Listed Event that requires AMP to determine if such event would constitute material information, whether because of a notice from the Trustee or otherwise, AMP shall as soon as possible determine if such event would be material under applicable federal securities laws.

**6. TERMINATION OF REPORTING OBLIGATION.** AMP’s obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Series 2010A-D Bonds.

**7. DISSEMINATION AGENT.** American Municipal Power, Inc. shall be the Dissemination Agent. AMP may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

**8. AMENDMENT.** Notwithstanding any other provision of this Disclosure Agreement, AMP may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws, to the effect that such amendment is not inconsistent with or is required by the Rule.

**9. ADDITIONAL INFORMATION.** Nothing in this Disclosure Agreement shall be deemed to prevent AMP from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If AMP chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, AMP shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**10. DEFAULT.** Any Beneficial Owner may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause AMP to file its Annual Report or to give notice of a Listed Event. The Beneficial Owners of not less than a majority in aggregate principal amount of Series 2010A-D Bonds outstanding may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of AMP hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture or the Series 2010A-D Bonds, and the sole remedy under this

Disclosure Agreement in the event of any failure of AMP to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

It shall be a condition precedent to the right, power and standing of any person to bring an action to compel performance under this Disclosure Agreement that, such person, not less than 30 days prior to commencement of such action, shall have actually delivered to AMP notice of such person's intent to commence such action and the nature of the non-performance complained of, together with reasonable proof that such person is a person otherwise having such right, power and standing, and AMP shall not have cured the non-performance complained of.

Neither the commencement nor the successful completion of an action to compel performance under this Disclosure Agreement shall entitle any person to any other relief other than an order or injunction compelling performance.

**11. BENEFICIARIES.** This Disclosure Agreement shall inure solely to the benefit of the Participating Underwriter and Beneficial Owners from time to time of the Series 2010A-D Bonds, and shall create no rights in any other person or entity

AMERICAN MUNICIPAL POWER, INC.

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer



## **EXHIBIT A**

### **PARTICIPANT INFORMATION**

- (a) Updates for the previous calendar or fiscal year, as applicable, of the statistical and financial data presented in Appendix B to the Official Statement.
- (b) The audited financial statements for the electric system or, if separate financial statements are not prepared and audited for the electric system, then the audited general purpose financial statements of the MOP. The basis of presentation of such financial statements shall be generally accepted accounting principles or such other manner of presentation as may be required by law.

## **EXHIBIT B**

### **NOTICE OF FAILURE TO FILE ANNUAL REPORT**

RE: American Municipal Power, Inc. Meldahl Hydroelectric Project Revenue Bonds, Series 2010A (Federally Taxable), Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds), Series 2010C (Federally Taxable – Issuer Subsidy – New Clean Renewable Energy Bonds), and Series 2010D (Tax-Exempt) (the “Series 2010A-D Bonds”)

CUSIP NO. \_\_\_\_\_

Dated: \_\_\_\_\_, 2010

NOTICE IS HEREBY GIVEN that American Municipal Power, Inc. (“AMP”) has not provided an Annual Report as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named Series 2010A-D Bonds issued pursuant to that certain Master Trust Indenture, dated as of October 1, 2010, as supplemented by the as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture, each dated as of October 1, 2010, each between AMP and U.S. Bank National Association, Cincinnati, Ohio, as trustee. AMP anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

AMERICAN MUNICIPAL POWER, INC.

By: \_\_\_\_\_  
Senior Vice President of Finance and  
Chief Financial Officer