FITCH AFFIRMS AMERICAN MUNI POWER COMBINED HYDRO PROJ REVS AT 'A'; OUTLOOK STABLE

Fitch Ratings-New York-06 December 2012: Fitch Ratings has affirmed the 'A' rating on the following American Municipal Power, Inc. (AMP), Combined Hydroelectric Projects revenue bonds:

--$24.425 million, series 2009A (federally taxable);
--$497 million, series 2009B (federally taxable-BABs);
--$122.4 million, series 2009C (tax exempt);
--$152.995 million, series 2010A (federally taxable);
--$1.11 billion, series 2010B (federally taxable-BABs);
--$116 million, series 2010C (federally taxable-CREBs).

Fitch has also withdrawn the 'A' rating on the AMP Combined Hydroelectric Project implied revenue bonds as Fitch no longer considers the rating to be analytically meaningful.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by the trust estate, which will include all gross receipts (primarily payments made by the participants under power sales contracts), as well as other rights under the power sales contracts and transactional documents. The pledge of gross receipts will be subject to the prior payment of operating and fuel expenses.

KEY RATING DRIVERS

EXPENSIVE, BUT ENVIRONMENTALLY-BENEFICIAL RESOURCE: The Combined Hydroelectric Project (CHP) consists of three separate run-of-the-river hydroelectric generating facilities aggregating 208 MW. Once complete, the CHP is expected to provide power supply that is initially expensive ($114/MWh) but environmentally-beneficial in a region dominated by fossil-fuel fired generation. The longer-term economics of the CHP are likely to be considerably more favorable.

STRONG TAKE-OR-PAY CONTRACTS: Take-or-pay power sales contracts obligate the 79 participating municipally-owned electric systems to pay for their respective shares of all project costs, including debt service debt service on the bonds, whether or not the project is completed, operating or operable. All of the participating systems are members of AMP.

ESTIMATED COMPLETION REMAINS 2014-2015: Project construction has progressed with minor delays, but commercial operation remains scheduled for the 2014-2015 timeframe. More aggressive than anticipated bidding on several contracts has resulted in lower costs and additional contingencies, which may be used to offset future cost overruns or reduce outstanding debt.

CONCENTRATION OF SATISFACTORY PURCHASERS: The participants include a geographically and economically diverse group of cities in six states. The six largest purchasers, which include the cities of Bowling Green (OH), Cleveland (OH), Danville (VA) and Paducah (KY; rated 'A-' by Fitch), together account for 51.4% of the project output. All six exhibit satisfactory credit characteristics and utility fundamentals, but some have experienced declining electric sales and customer bases in recent years.

STANDARD CONTRACT STEP-UP PROVISION: The power sales contracts include standard step-up provisions that require each participant to purchase up to 125% of its original allocation of

the project output in the event that another participant defaults.

EFFECTIVE MEMBER AND PROJECT MANAGEMENT: AMP has demonstrated its ability to oversee and manage its 129 members to ensure that each meets and maintains a variety of financial and operation requirements. Project management to date, particularly during development, has also been strong.

WHAT COULD TRIGGER A RATING ACTION

DECLINE IN PARTICIPANT METRICS: A continued decline in the operating and financial metrics of the project participants, particularly the largest, could result in downward rating pressure. Many of the project purchasers are participating in sizable new power projects, and serve areas experiencing economic strain.

WEAK PROJECT PERFORMANCE: Weaker than anticipated project performance could result in additional downward rating pressure given the sizable fixed cost component.

CREDIT PROFILE

AMP is a nonprofit wholesale power supplier and services provider that was organized in 1971 for the benefit of its members. At Dec. 1, 2012, AMP reported 129 members located throughout seven states (Delaware, Ohio, Kentucky, Pennsylvania, Michigan, Virginia and West Virginia). Together, the AMP members serve approximately 625,000 retail electric customers.

AMP is currently pursuing a portfolio of diverse power supply resources that includes coal-fired generation, hydroelectric generation, natural gas, wind, solar and landfill gas power projects, and is designed to meet the growing energy requirements of its members. AMP is developing its newest resources as separate and distinct projects consistent with its traditional resource strategy.

SEPARATE AND DISTINCT PROJECT

The AMP CHP consists of three separate, run-of-the-river hydroelectric generating facilities on the Ohio River: the Cannelton, Smithland and Willow Island facilities. Each individual project will utilize substantially the same design elements and will entail the diversion of water from an existing Army Corps of Engineer dam through bulb turbines to generate electricity. When the projects enter commercial operation, the combined project will have an aggregate generating capacity of approximately 208 MW.

Each of the AMP project participants is required to pay its proportional share of the CHP costs pursuant to the power sales contract. Each participant's obligation is take-or-pay, requiring it to pay its share of all costs (including debt service) whether or not the project is operating or operable. The power sales contracts also contain a relatively standard step-up provision that would require each participant to purchase up to 125% of its original purchase obligation if another participant were to default on its obligations.

CONSTRUCTION PROGRESSING BROADLY AS EXPECTED

Project construction has progressed generally on schedule. Delays related to concrete pouring and ground improvements have pushed the estimated completion dates at Cannelton and Smithland several months later, whereas the absence of certain anticipated ground improvements has accelerated the completion of Willow Island. Commercial operation is expected for units in 2014-2015.

The total budgeted cost of project construction remains approximately $2.04 billion, which at $9,835/kW is very high compared to natural gas-fired and even coal-fired units, but generally in-line with hydroelectric construction. Favorably, more aggressive bidding has resulted in the awarding of several contracts at prices below original budget estimates. The lower priced contracts have enabled AMP to build additional contingencies into the existing budgets to buffer the effect of future delays or overruns. Unused contingency funds could be used by AMP to redeem outstanding

debt, thereby lowering debt service costs.

CHALLENGING NEAR-TERM ECONOMICS

The projected unit cost of production of the CHP ($100/MWH) is expected to be well above prevailing market prices for a considerable period of time, making the project a very expensive resource for the foreseeable future. Current projections indicate that production costs will remain above market prices until 2035 (assuming no additional costs related to CO2 emissions). Factoring in assumptions for emissions cost price parity is achieved earlier, but still outside the reliable forecast period, in 2026.

Mitigating the effect of the higher cost will be the 'fuel' diversity offered by the project, particularly given the participants' reliance on fossil fuel generation. Over the longer term, cost estimates are very competitive vis-a-vis long-term forecasts reflecting the relatively fixed cost of the resource and the absence of volatile fuel costs or additional capital investment.

DIVERSE PROJECT PARTICIPANTS

The CHP participants are comprised of 79 municipal electric systems located throughout six states. Sixty-seven of the participants are located in Ohio, but three of the six largest are located in Kentucky, Michigan and Virginia. Although the power supply arrangements for the participants vary, each has agreed to purchase its respective share of capacity and energy from the project in order to meet a portion of its system demand.

Ownership interests in the project among the participants range from 16.83% (Cleveland) to 0.04% and are appropriately sized based on peak demand. Fifty-six of the participants have shares of less than 1%, while the largest six account for 47.3% of project ownership and entitlement.

UNEVEN PARTICIPANT ENERGY SALES; DECLINING CUSTOMER BASES

Energy sales among the largest participants are reasonably balanced, but have a higher than average concentration of industrial sales. For fiscal 2011, participant energy sales to residential and commercial customers accounted for 34% and 25% of total energy sales, respectively. Sales to the more volatile industrial segment were higher at 41%. Customer concentration at the individual member level is relatively modest, but tempered by a declining customer base at three of the largest systems.

Energy demand among the largest participants has been uneven, but higher overall (3.5%) over the last two years due to stronger residential sales, which rose 4.9%. Commercial and Industrial sales grew 2.8% and 2.7%, respectively, over the period.

Although Fitch believes that the broader demographics of the participant cities support the current rating, it is concerned about the uneven trend in energy sales. Many of the participants also continue to be challenged by service areas that exhibit relatively weak demographics that include declining populations, unemployment rates that are higher than state and national averages, and relatively low per capita income measures. Although the small size and rural nature of many of the participants is a contributing factor, the continuation of these trends, particularly among the largest participants, would increase Fitch's concern.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria this action was informed by information from CreditScope.

Applicable Criteria and Related Research:
--'U.S. Public Power Rating Criteria', Jan. 11, 2012;
--'Revenue-Supported Rating Criteria', June 12, 2012.

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U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665815
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015

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