

**Rating Action: Moody's Affirms A3 Rating on American Municipal Power, Inc. Meldahl Hydroelectric Revenue Bonds; Outlook Stable**

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**New Hydroelectric Facility Shows Construction Progress**

New York, September 05, 2013 -- Moody's has affirmed the A3 credit rating with a stable outlook on the American Municipal Power, Inc. (AMP) Meldahl Hydroelectric Project Revenue bonds.

**RATINGS RATIONALE**

The rating rests substantially on the strong bond security which includes the unconditional take-or-pay obligation of the 48 municipal project participants in the project to pay O&M and debt service on the bonds. The 51% obligation share of Hamilton, Ohio (Electric Revenue bonds rated A3/stable) bears significant weight in the rating. The obligation of the 48 participants is unconditional regardless whether the project is constructed, completed, operating, or operable. Interest on the debt during project construction is capitalized until the project is commercial.

The rating also considers the long-term expected value and economics of the non-carbon hydroelectric project, as well as the A1 issuer rating assigned to AMP, Inc. who has been an effective power supply agency to its members.

In addition, the rating incorporates construction risk as it relates to the construction of the Meldahl Hydroelectric Project, which is a 105 MW hydroelectric facility being constructed along the Ohio River. The project financed by AMP Inc. is 84% complete as of September 2013, with an expected commercial date in the fourth quarter of 2014. There have been minimal issues with labor availability or commodity purchase cost escalation. All major equipment is now on site. The transmission line interconnect has been approved and transmission switchyard is under construction with completion expected in early 2014. While the project is progressing toward completion and is close to project budget, periodic flooding on Ohio River remains an unpredictable factor that could create future project delays.

The levelized cost of the energy and power from Meldahl is projected to be in the \$80/mwh range given a forecasted sound capacity factor. According to projections, the all in cost is flat through at least 2038 due to level debt service and minor operating expense changes. While the all-in cost is above today's regional market price, the energy and capacity is a long-term source of carbon neutral energy which makes up a small percentage of each municipal participant's power supply mix. The importance of the US Army Corps of Engineers Ohio River lock and dams required for commercial river transportation is key to certainty regarding capacity factors and river flows. The Meldahl project has the highest rated capacity factor of any of the new hydroelectric projects AMP is undertaking. The Ohio River water levels are based on predicted rainfall in the Ohio River basin in the several state region. The planning model uses the capacity factors detailed in the independent engineer's study which are expected to be achieved as long as water flows to support the lock and dam system are maintained which appear likely given their important role in river navigation. AMP is evaluating with project partners a plan to better coordinate river flows between the locks that could add 2 to 5% to generation levels.

The Meldahl Project is part of AMP's power resource diversity strategy to lessen the exposure of the participating municipal utilities to the regional wholesale energy markets. In addition to AMP participation in the construction financing of the Prairie State coal-fired generation facility and the Fremont Energy Center natural gas fired units, AMP has simultaneously issued debt to finance three new hydroelectric facilities along the Ohio River. The Cannelton (88MW); Smithland (76 MW) and Willow Island (44 MW) hydroelectric facilities. These projects are being financed by a separately secured debt (Combined Hydroelectric Project, rated A3) with different participants subscribing for a share of the capacity and related energy.

The Meldahl Project will be operated by Hamilton (rated A3), who also purchased a 51.4% share of the output of the facility. A management committee has been established with representation of AMP and Hamilton. The AMP-Hamilton agreement also provides that AMP will pay Hamilton \$139 million to purchase 48.6% (34.1 M) of the Hamilton owned Greenup facility. AMP expects to coordinate the production capabilities of the six hydro facilities (four under construction and two existing units-Belleville and Greenup) operating on the Ohio River to maximize

unit output.

#### Strengths:

\*Take-or-pay contracts with 48 municipalities with a weighted average credit quality of A3. Hamilton, which represents 51% of the obligation has a general obligation rating of Aa3 and its electric utility revenue bonds are rated A3, stable outlook. AMP has an A1 issuer rating based on its effective role as power supplier to a diverse group of municipal utilities located in a multi-state region

\*Power supply contract extensions by members and the signing on of various new members indicates strong support for AMP's role as a regional power supplier

\*FERC licensed Meldahl Hydroelectric Project has unique advantages including providing a 50-year renewable energy resource that is non-carbon based

\*Meldahl hydro generation will be a small percentage of the overall power supply of the participants which limits impact of any additional cost increases. Financial impact on Hamilton is larger since Hamilton's obligation is in 30% range

\*Meldahl Project has recorded water flow that would indicate a hydroelectric facility would have a 55% or greater capacity factor

\*Favorable long-term project cost projections against other new generation sources (including carbon cost projections) relative to Midwest ISO or PJM operated energy marketplace

\*Competitive member retail rates. Hamilton's rates are 30% below the neighboring major investor-owned utility

\*AMP has a well-regarded fiscal monitoring system including use of financial metrics to provide ongoing assessment of members' credit profiles

\*Project is 84% completed

#### Challenges:

\*High capital cost at \$7,000/KW

\*Construction risk and potential project delays from flooding that could increase capitalized interest costs

\*US Army Corps of Engineers regulates water levels through lock and dam system which subjects water levels to administrative action

\*No assurances that environmental regulation will remain the same

#### Outlook

The rating outlook is stable given the strong bond security and that construction is close to the current target to be completed by fourth quarter 2014.

#### What Could Change the Rating UP

The rating could be upgraded if Hamilton's credit position improves post construction when Meldahl is in commercial operation, it closes on the sale of the Greenup interest to AMP, and it reduces its direct debt.

#### What Could Change the Rating DOWN

The rating could be downgraded if project costs rose to a level that participants considered unsupportable and they challenged their power supply contracts with AMP, or the project got significantly delayed, or if credit quality of the participants in the Meldahl Project eroded.

The rating also may be pressured should Hamilton not retire its existing Greenup hydroelectric debt when it sells an undivided 48.6% ownership interest in the Greenup Project to AMP once the Meldahl Project is placed into commercial operation.

#### RATING METHODOLOGY

The principal methodology used in this rating was US Municipal Joint Action Agencies published in October 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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