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Rating Update: Moody's Affirms A1 Issuer Rating on American Municipal Power Inc. (OH); Outlook Stable

Global Credit Research - 10 Apr 2013

Average Participant Credit Quality; Sound Cost Recovery Process; Sound Liquidity and More Diverse Resource Mix Positive Considerations

AMERICAN MUNICIPAL POWER, INC.
Combined Utilities
OH

Opinion

NEW YORK, April 10, 2013 --Moody's Investors Service has affirmed the A1 issuer rating on the American Municipal Power Inc. (AMP). The outlook is stable.

RATINGS RATIONALE

The issuer rating takes into consideration AMP's established role in providing competitive and reliable wholesale energy services to a broad and diverse customer base including 129 transmission dependent municipal electric utilities located in seven states (Ohio; Delaware; Kentucky; Pennsylvania; Michigan; Virginia and West Virginia); the weighted average credit quality of AMP's participating members in the A2 to A1 range; and AMP's strong cost recovery process that includes AMP and its members individual Master Service Agreements that obligate each member to pay AMP non-bond financed project related costs. Both AMP and its member municipal electric utilities also have an unregulated rate-setting authority and most municipal electric utilities can pass through higher fuel costs. In addition, AMP has a well regarded credit monitoring system that evaluates its members financial health on an ongoing basis.

Also important in the rating is AMP's sound financial liquidity and its strong strategic planning to diversify and manage member power supply.

AMP has no direct long-term debt but through AMP member take-or-pay power sales contracts as key to bond security, over $5 billion of revenue bonds have been issued to construct or acquire new generation. Each project is separately secured with no cross default, with indentured reserves, and many member participants are in more than one project. AMP's members that participate in the generation projects subscribe to the project after an AMP power supply study seeks to optimize cost competitiveness and resource diversity. AMP's objective is to significantly reduce its member's power supply from market based power sales to establish more competitive and reliable supply options. AMP's non-coincident peak demand of 3,512 MW of the 129 AMP members occurred in 2011.

Recent projects financed with take-or-pay contracts with members include AMP's construction of three hydro units as part of the 208 MW Combined Hydro Project (rated A3) ; AMP's construction of the 105 MW Meldahl Hydroelectric Project (rated A3); a share of (368 MW) of the Prairie State coal fired generation project (rated A1); and acquisition of the 675 MW (duct-fired) Fremont Energy Center, a two-unit natural gas fired, combined cycle, generation facility.

Besides the three-year average adjusted days cash on hand ratio calculated by Moody's in the 100 days range, AMP has a $750 million revolving line of credit, that can be expanded by an additional $250 million, authorized by AMP's Board of Trustees with a syndicate of ten banks with an expiration date of January 10, 2018. Any draws on the line are repaid by the member participants (weighted average credit quality in the A2 to A1 range) that are participants in the take-or-pay secured projects if utilized for such a purpose. Non-project costs initially paid by the line of credit are funded through Master Service Agreement billings (members also weighted average credit quality is in the A2 to A1 range) and all costs are required to be recovered. The Master Service Agreements between AMP and each of the municipalities were approved by local municipal ordinances.

AMP was established by an Ohio state statute as a non-profit corporation but it operates like a joint power agency. It is governed by a 20-member Board of Trustees made up of officials from member municipalities from each of

the states. AMP's primary business has been the resale of electricity on a take and pay wholesale basis to its members. Many of its members are all-requirement customers. The overall power supply mix of AMP members is expected to fall from 72% market based energy to 36% by 2015.

AMP's capital program includes acquisition through bond financing that will be secured by take-or-pay power sales contracts,a combined cycle natural gas -fired generation facility to meet AMP's member peak demand in 2016. Also AMP may potentially finance another hydro-facility to further diversity the resource mix.

Outlook:

Moody's believes the outlook is stable given AMP's sound cost recovery process; the sound management and its power resource planning on behalf of its members. Generation ownership risks are present but well managed providing stability.

What Could Change the Rating Down:

The rating could be downgraded should there be any successful challenges to AMP's cost recovery process including the Master Services Agreement; participant credit quality weakens or liquidity declines significantly below current levels.

What Could Change the Rating Up:

The rating could be upgraded should participant credit quality improve; the generation facility construction projects are completed and operational and AMP's wholesale rate competitiveness is maintained; and AMP's sound liquidity's is maintained.

Fundamentals

Strengths:

*Competitive position of municipal utility participants with an average 20% rate advantage and sound strategic plan to position cost structure in longer term

*Certainty in the cost recovery due to the sound AMP Master Service Agreement with its members that requires all costs to be paid; the unregulated rate setting authority of AMP member municipal utilities, including AMP's statutory authority to increase its wholesale rates on a timely basis and members' ability to pass on purchased power costs to retail customers.

*Increasing power resource diversity limits the downside from any one power supply contract or generation source

*No direct retail competition for municipal electric utilities in each state served

*Average weighted credit quality of the diverse group of AMP"s members is in the A2-A1 range

* AMP's credit monitoring system which provides an early warning of fiscal stress

*The satisfactory level and availability of internal and external financial liquidity including bank line agreement with satisfactory terms and conditions

*Demonstrated record of success in managing power supply for AMP's member municipal electric utilities

*Fully funded debt service reserves for individual separately-secured generation project debt. No cross default between projects

Challenges:

*Strategic plan to shift from market purchases to generation ownership to meet supply requirements of members has resulted in increased leverage

*Future borrowing for hydro and combined cycle generation projects will increase overall leverage

*Managing power supply purchases in restructured wholesale electricity market

*Some member utilities have customer dominance and above average retail rates

*Prairie State's higher cost and delay in commercial start date has caused some participants and anti-coal activists disgruntlement. The two unit coal fired generation plant is up and running at stronger performance levels than planned.

*Prairie State could be subject to future Clean Air Act regulations posing potential future cost pressures

DETAILED CREDIT DISCUSSION

Recent Developments

*A Securities Exchange Commission (SEC) subpoena served on AMP relating to the Peabody Energy Corporation (rated Ba1) developed Prairie State Energy Project remains uncertain as to importance. Peabody has disclosed the investigation is not material.

*Dates for commercial operation of the four hydro units under construction include: Cannelton` (third quarter 2014); Smithland (second quarter 2015); Willow Island (fourth quarter 2014) and Meldahl (fourth quarter 2014). Most significant risk now is the impact of any flooding on the construction schedule

*AMP Inc. filed litigation AMP Inc. v. Bechtel Power Corporation in February 2011 seeking $100 million of sunk cost recovery from the canceled AMPGS project. Trial now not expected to start until 2014.

*Both units of Prairie State went into commercial operation and exceeded heat rate performance and the capacity performance testing.

*AMP Inc. overall financing costs for the Freemont Energy Center came in at a true interest cost of 4.27% and the plant has had a sound operating record since it went commercial in 2012.

*AMP average wholesale rate to its 129 members was $60/mwh in 2012.

* AMP has targeted 1% annual energy savings from efficiency programs through 2017

*Purchased power as % of power mix is down below 50% for AMP for first time ever at 46% in 2013

*New peaking resource are projected to be needed by 2016; AMP has identified a new natural gas unit acquisition as one approach to meeting peak requirements

*Gorsuch Project operation was ceased in 2010 and the plant was demolished in 2013. All Gorsuch debt was retired in 2012. Gorsuch at an almost $90/mwh all-in cost was replaced by Prairie State generation.

*Since 2009 AMP has quarterly audits done and posted on EMMA

Key Facts:

Credit Quality of Participants: In A2 to A1 range

Market Purchases 2010: 72.7%; 2015: 36%

Number of Participants: 129

Average Wholesale Rate, 2012: $60/mwh

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PRINCIPAL 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 for a copy of this methodology.

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