

**American Municipal Power, Inc.  
Management's Discussion and Analysis  
Combined Financial Statements  
December 31, 2009**

**Executive Summary**

The following discussion and analysis provides an overview of the combined financial performance of projects owned or managed by AMP for the year ended December 31, 2009. Other details and information related to AMP and the joint venture projects are described in the Notes to the Combined Financial Statements. This Management's Discussion and Analysis should be read in conjunction with the Combined Financial Statements.

AMP is, for federal income tax purposes, a tax-exempt organization that provides wholesale electricity to member municipalities that own and operate electric systems. Some projects, such as the Richard H. Gorsuch Generating Station, are owned directly by AMP. Power supply from an AMP owned project is delivered under a take-and-pay contract with each member community taking power from the project. Each month, the participating member community is invoiced for the cost of operating the project for the previous month, including fuel, replacement power and debt service. Other projects are organized under Ohio law as municipal joint ventures. Power supply from these projects is delivered pursuant to a joint venture agreement. Each participant in the joint ventures owns an undivided share of the joint venture. Each joint venture participant is also a member of AMP. AMP has long-term agency contracts in place to manage and operate the joint ventures. A joint venture participant is also invoiced monthly, pursuant to an approved operating budget, for the actual cost of fuel, replacement power, if any, and usually debt service. Budgets and rates are approved by the AMP Board of Trustees and the joint venture boards of participants.

AMP is a projects based organization. Each project has separate financial reporting. AMP members participating in a project receive a separate invoice for their participation in that project. Each project has a separate bank account and stands alone with respect to cash flow and liquidity. Cash is not co-mingled between projects. AMP utilizes a bank lock box arrangement whereby cash receipts are segregated and deposited into the proper project account.

Some members do not participate in any project, but have contracted with AMP to arrange and deliver power and energy for their respective electric systems. AMP in turn, has in place short and long-term power supply contracts with various counterparties whereby power and energy is bought and resold on a

wholesale basis to members. Member communities are invoiced monthly for this power supply delivered the previous month.

Most of AMP's member communities are referred to as "all-requirements members" meaning that AMP provides all power and energy requirements for that member community's electric system. The other member communities are "partial-requirements members," meaning they might have self-generation or a partial power supply contract independent of power supplied through AMP.

AMP is a member of the Midwest Independent Transmission System Operator ("MISO") and the Pennsylvania-New Jersey-Maryland Office of the Interconnection ("PJM"). AMP Members are about equally divided between MISO and PJM.

AMP is not subject to regulation by any state public service commission. Certain contracts are subject to the jurisdiction of the Federal Energy Regulatory Commission. Most, if not all of AMP's member communities set retail rates locally by action of the city council or other local governing body.

In keeping with AMP's strategic plan initiative, the organization is seeking to build generating assets. During 2009, AMP continued to fund its share of the costs of constructing the Prairie State Energy Campus and to develop several hydroelectric projects. In June and November 2009 AMP received final permits to proceed for the Cannelton and Smithland hydro projects, respectively. However, in November 2009, the participants of AMPGS voted to terminate the pulverized coal power plant in Meigs County, Ohio. Other options being explored are acquiring base load assets and intermediate-term assets. AMP's capital expenditure plan through 2014 for power plant development, construction and acquisition could approximate \$6 billion.

In 2009, AMP increased its access to long term capital markets on favorable terms and expanded its liquidity facilities. Approval of final permits to proceed on the Cannelton and Smithland projects allowed AMP to refinance short-term borrowings with long-term debt with 2009's low interest rates. AMP also issued long-term debt for the financing of its share of the Prairie State Project.

AMP expanded its revolving credit loan facility from \$450 million to \$550 million in 2009. It also increased its commercial paper program facility from \$350 million to \$450 million. The commercial paper program allows AMP to issue tax-exempt commercial paper obligations which are supported by its revolving credit loan facility. AMP's solid finances also earned it expanded credit facilities with its power counterparties.

During 2009, AMP issued \$1,652,580 of term debt to finance the construction of generating assets and to refinance short term debt. AMP was an innovator in financial markets, and took advantage of historically low interest rates and new federal programs such as Build America Bonds to minimize the overall cost of financing its long term generation projects. AMP was a leader in the Public

Power industry segment in issuing BABs in 2009. The BABs qualified for the 35% federal interest rate subsidy.

In March 2009, AMP issued \$166,565,000 Prairie State Energy Campus (PSEC) series 2009A Project Revenue bonds. This bond provided funds to repay the \$120M Prairie State Bond Anticipation Note, Series 2008 and funded a portion of additional capital expenditures, and funded the capitalized interest and cost of issuance expenditures of these bonds. These bonds locked in interest rates ranging from 4.00% to 5.75% for bonds with maturities from 2017 through 2039.

In April 2009, AMP issued \$350,000,000 of Hydroelectric Projects Revenue Bond Anticipation Notes, Series 2009A at an interest rate of 1%. These notes were issued to refund AMP's commercial paper and borrowings on AMP's revolving line of credit facility on behalf of the projects, fund a portion of the additional costs of constructing and placing the projects into service, and pay the costs of issuance of the Notes. These bonds are callable at par and provided the flexibility to refinance the projects on a long term basis once the final permits to proceed were issued.

In October 2009, AMP issued \$469,580,000 million in PSEC debt in two series: \$83,745,000 in federally taxable PSEC Series 2009B Debt and \$385,835,000 of PSEC Series 2009C Build America Bonds (BABs). This debt was used to finance AMP's ownership interest in the PSEC, repay draws on the line of credit made to finance certain capital costs associated with the PSEC, and fund capitalized interest expenses, deposits to the Parity Common Reserve Account and the costs of issuance of the series 2009 bonds. PSEC Series 2009B bonds have interest rates ranging from 3.615% to 5.803% with maturities ranging from 2013 through 2028. PSEC Series 2009C bonds have interest rates ranging from 5.953% to 6.053% and maturities ranging from 2034 to 2043. In January 2010, AMP received its first BABs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of \$2,780,786. The net BABs interest rate after the 35% federal subsidy was 4.05%. The true interest cost for the entire issue was 4.147%.

Once final permits to proceed for Cannelton and Smithland were in place, AMP issued debt to finance these projects on a long-term basis.

In November 2009, AMP issued \$643,835,000 of Combined Hydroelectric Projects Revenue bonds in three series. Series 2009A bonds of \$24,425,000 are federally taxable bonds that were used to fund the portion of construction expenditures that are ineligible for tax-exempt debt. It had interest rates ranging from 3.944% to 4.545% and matures in 2015 and 2016. Series 2009B Federally Taxable – BABs of \$497,005,000 have interest rates ranging from 5.264% to 6.449% and mature from 2020 to 2044. In January 2010, AMP received its first subsidy payment from the U.S. Department of the Treasury for this issue in the amount of \$2,017,539.46. The true interest cost for the BABs is 4.217%. Series 2009C tax-exempt bonds of \$122,405,000 have coupon interest rates ranging from 3.50% to 5.25% and maturities ranging from 2016 to 2024. The true

interest cost for the entire issue was 4.221%. The bonds were used to refund the \$350 million Hydroelectric Projects Revenue Bond Anticipation Notes 2009A, fund a portion of the capital expenditures, costs and expenses associated with the Cannelton, Smithland and Willow Island hydroelectric facilities and fund capitalized interest on the Series 2009 bonds, deposits to the Parity Common Reserve Account, and the costs of issuance of the series 2009 bonds.

In December 2009, AMP issued a par amount of \$22.6 million of Combined Hydro Series 2009D Clean Renewable Energy Bonds (CREBs). These bonds were issued at a discount of \$3 million and do not bear interest. AMP is obligated to make equal annual debt service payments on the bonds beginning in 2009 and ending in 2025.

During 2009, AMP also helped its members obtain debt financing for their own electric generation, transmission or distribution projects and issued or renewed \$31,062,000 of on behalf of municipal BANS. The individual municipality is the primary obligor on term debt issued on its behalf. This debt was issued at rates varying from 2.00% to 4.00% during 2009.

## **Legal Status**

AMP was formed in 1971 under Ohio Revised Code 1702 as a non-profit corporation. 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 Section 1702.59. AMP has made all such required filings and is in good standing.

## **Tax Status**

AMP has obtained private letter rulings 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"), provided that at least 85% of AMP's total revenue consists of amounts collected from its member communities for the sole purpose of meeting losses and expenses (which include debt service). AMP believes it has met the requirements for maintenance of 501(C) (12) status each year since it received the ruling. On May 9, 1996, AMP also obtained a private letter ruling that it may issue obligations on behalf of its member communities, the interest on which is exempt from federal income taxes.

AMP obtained a private letter ruling from the IRS on October 24, 2002 determining that AMP is an instrumentality of its member communities for purposes of Section 141 of the Code. AMP requested and received on May 8, 2004, a private letter ruling from the Internal Revenue Service that (1) AMP's income is excluded from gross income for federal income tax purposes under Section 115 of the Code, and (2) because AMP's income is excluded from gross

income for federal tax purposes under Section 115 of the Code, AMP could make an election to disregard its status as an organization described in Section 501(C) (12) of the Code. AMP has not made that election. On April 18 2006, AMP obtained a private letter ruling from the IRS that affirmed previously issued private letter rulings for issuing bonds on a tax exempt basis on behalf of member communities and that AMP remains an instrumentality of its member communities for tax exempt financing purposes with the consequence that ownership or use by AMP will not result in private activity.

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

### **Competitive Position**

In 2001, the State of Ohio mandated that the Investor Owned Utilities (IOU) open their systems to allow retail customers to choose their provider of electric service. Under this same mandate, municipal systems were given the option to open their systems. AMP's Ohio Members are well positioned to keep their customers by having one of the lowest utility costs in Ohio and by providing outstanding customer service. None of AMP's Ohio Members have open systems, so no customer switches have, or can, occur absent local legislative action or federal legislation.

On May 1, 2008, Governor, Ted Strickland 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 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 of the Ohio Municipal Electric Association (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.

## Membership Health

AMP works closely with all of its member communities to assist them with a variety of issues: electrical generation, transmission systems, financing, retail rates or with new accounting procedures facing municipal entities. AMP is only as financially sound as its member communities. Therefore, AMP monitors their financial soundness and creditworthiness. The joint ventures and some other AMP projects issued long-term bonds and have covenants requiring that the member electric system revenues be greater than the sum of operating and maintenance expenses (ordinary and usual operating expenses under Generally Accepted Accounting Principles) and a minimum of 110% of debt service. Occasionally, a member community will fall below the requirement and AMP will work with it to correct the situation. Correction can be in the form of making the system more efficient or by raising rates. AMP has established financial criteria for accepting new members. Any potential new member must meet these criteria before its application can be submitted to the board of trustees for acceptance. Also, AMP has established a financial credit scoring system for all members. Each member will be credit scored annually once its audit report is made available.

## Business Risk

Like any electric utility, AMP has certain risks in the ordinary course of business. Some of the risks include but are not limited to:

- **Risk Identification.** Although AMP has an enterprise risk committee that meets regularly, it may not be able to completely identify, quantify and control all risks. The committee reports directly to the Board of Trustees.
- **Increases in Operating Expenses.** Increases in operations and maintenance expenses, including health care and pension costs, particularly at Gorsuch Station.
- **Commodity Price Risk.** AMP is exposed to market risk due to fluctuations in the wholesale price of electricity, coal, natural gas, diesel fuel and emission allowances. The wholesale market price of electricity is hedged through fixed and prepayment contracts as well as the use of peaking units and distributed generation. Although options are used from time to time, AMP does not utilize derivative instruments for trading purposes. AMP primarily only buys electricity needed for resale to member communities. AMP uses natural gas for start-up at Gorsuch Station and for use in gas turbine peaking units. Natural gas use has been minimal and has been purchased on the spot market. Diesel fuel for distributed generation units is purchased as needed. Coal requirements for Gorsuch Station are a combination of high-sulfur and low-sulfur coal. AMP has in place intermediate-term coal contracts for high-sulfur coal from local Ohio mines. The low sulfur supply is a mixture of Central Appalachia, Illinois Basin and Powder River Basin coal. Emission allowances are purchased on the open market.

- **Weather Related Risk.** Fluctuating weather conditions, including storms, flooding, low water conditions, high or cool temperatures and high humidity could adversely impact load, fuel prices, wholesale power prices and hydro generation.
- **Fuel Transportation Risk.** AMP is exposed to the risk of barge availability and transporting coal by barge on the Ohio River and to market costs of all transportation, particularly rail and barge costs in transporting coal to Gorsuch Station.
- **Interest Rate Risk.** AMP's exposure to market interest rate risk is reduced since a significant portion of debt is issued at fixed rates. However, AMP has interest rate risk due to the time it takes to prepare a bond transaction and bring the deal to market. AMP has a derivative advisor and a financial advisor, but has thus far not hedged this interim financing interest rate risk thorough derivative instruments.
- **Market Access Risk.** AMP's capital expenditure program could be at risk if market and economic conditions and volatility delay or preclude the issuance of debt to fund generation projects under construction.
- **Counterparty Credit Risk.** AMP has an energy risk management function that regularly monitors the credit quality of counterparties to its purchased power contracts. Credit limits are established with each counterparty and credit protection is obtained, when necessary. As of December 31, 2009, approximately 94.4% of the notional value of AMP's wholesale power supply contracts was with counterparties with ratings in the A category or above. In September 2009, AMP signed a contract with The Energy Authority (TEA), the nation's leader in public power energy trading, to provide bilateral trading, risk control and regional transmission organization (RTO) services for the organization's whole sale portfolio. To that end, TEA will perform short-term trading services and RTO market participation functions on behalf of AMP, while maintaining best-practices risk control and reporting over the entire portfolio. The existence of such policies, procedures, contracts and functions does not imply that AMP is insulated from such risks.

AMP might continue to prepay for longer term power supply contracts with highly rated counterparties, depending on the market price of power and economic conditions.

- **Member Creditworthiness Risk.** AMP has developed financial criteria for a municipal to be admitted to membership. AMP also regularly monitors and credit scores the financial condition of its member communities. Corrective action is initiated if a member community experiences financial difficulty.
- **Loss of Membership.**
- **Credit Ratings.** AMP strives to maintain high ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings

(Fitch), 3 nationally recognized rating services. AMP's outstanding ratings are:

**AMP Issuer or Counterparty Rating**

Moody's	A1
Fitch	A

**Commercial Paper**

Moody's	P1
S&P	A1+

**AMP Electricity Prepay Bonds**

Moody's	A2
Fitch	A
S&P	A

**Combined Hydroelectric Project Long-term Bonds**

Moody's	A2
Fitch	A
S&P	A

**Gas Turbine Project**

Moody's	VMIG1
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**OMEGA JV2**

Moody's	A1
Fitch	A-

**OMEGA JV5**

Moody's	A1
Fitch	A
S&P	BBB+

**Prairie State Long-Term Bonds**

Moody's	A1
Fitch	A
S&P	A

Credit rating downgrades could adversely affect borrowing costs and ability to access capital. Federal legislation to regulate rating agencies could also be a risk.

- **Economic Recession.** Economic recession, volatility and uncertainty could adversely impact on member financial health and electric load.

- **Liquidity Risk.** AMP's ability to renew bank lines of credit could be a risk. Federal financial reform legislation and increased regulation of banks could also be a risk.
- **Legislative Risk.** AMP is closely aligned with the Ohio Municipal Electric Association and is a member of the American Public Power Association. Both of these organizations monitor legislative activities at the state and federal level for AMP and its Members. AMP is at risk for any state or federal legislative change that might have an adverse effect on its operations.
- **Changes in Tax Law.** AMP is at risk for any change in tax law that might adversely impact its operations or its ability to issue tax-exempt debt.
- **Transmission Risk.** AMP is a transmission dependent utility and is a member of both MISO and PJM. Adverse rulings or actions by the Federal Energy Regulatory Commission could increase the cost of transmission to AMP's Members. The uncertainty of future operations of MISO and PJM is also a risk.
- **Permitting and Environmental Risk.** AMP is subject to regulation by federal and state agencies with respect to permitting and environmental matters. AMP may have exposure to future legislative initiatives related to carbon taxes or a carbon cap and trade program, although AMP project feasibility studies have analyzed the potential impact of a carbon tax or cap and trade program on future coal-fired projects. AMP's environmental group continuously monitors all generating activities for legal compliance. AMP believes it was in compliance with all environmental laws as of December 31, 2009. The cost to monitor, appeal and comply with rapidly changing permitting and environmental laws and the cost of future compliance could have an adverse impact on operations.
- **Construction Risk.** AMP has construction risk related to inflation and the rapidly increasing price of steel, construction materials and the shortage of skilled labor associated with power plant construction. AMP expects to hedge some of these costs and utilize fixed contracts and Engineer-Procure-Construct (EPC) contract structures.
- **Human Resources Risk.** AMP might not be able to recruit and retain trained qualified employees to meet staffing requirements.
- **Acts of Terrorism.** Any act of terrorism could have a negative impact on AMP and the electric utility industry.

## **AMP Summary of Projects**

The following projects are owned by AMP:

### **Gorsuch Station Project**

Richard H. Gorsuch Generating Station (Gorsuch) is a 1950's vintage 213MW coal-fired base load power plant located on the Ohio River near Marietta, Ohio. Previously AMP had determined the project had a useful life through approximately 2012. As discussed below, in May 2010 AMP determined to cease Gorsuch electric generation operations by December 15, 2010. AMP is analyzing options for the future use of Gorsuch Station. The plant was originally built as a co-generation facility and today also supplies steam to several nearby industrial customers. At December 31, 2009, AMP had \$78,870,000 of term debt outstanding on its facility for a variety of purposes including pension and postretirement benefits, the purchase of emission allowances, funding asset retirement obligations, working capital requirements and operating, maintenance and other costs and funding debt service reserve requirements and issuance costs. The debt service will be collected monthly from Gorsuch participants through 2012. There are 48 AMP Members that have contracted for power from the Gorsuch Project. The debt is non-recourse to AMP, in that only the revenues from the underlying power sales contracts with the 48 participants are pledged to cover the debt. In December 2009, \$17,720,000 of scheduled principal payments were made on the Multi-Mode Variable Rate Gorsuch Station Taxable Revenue Bonds.

Under the power sales take-and-pay contracts, each 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) the risk that the power available and required to be purchased under the power sales contracts becomes uneconomical. The costs associated with these risks would be recovered by AMP by increasing its rates for electricity delivered under the power sales contracts.

On January 21, 2010, AMP fully redeemed the Gorsuch 2008 Bonds at a price equal to the par value of the bonds plus accrued interest. The redemption of the Gorsuch 2008 Bonds was partially funded with two five-year term notes (the Gorsuch Term Notes" between AMP and Keybank National Association dated January 21, 2010. The total amount of the Gorsuch term notes is \$40 million. The notes require equal monthly payments of principal plus accrued interest. Interest on the notes is variable in nature. AMP amended the two interest rate swap agreements associated with the Gorsuch 2008 bonds as part of the

redemption. The terms of the swap agreements were amended to match the principal amounts and variable interest rates underlying the Gorsuch Term notes.

On May 19, 2010, AMP announced plans to cease electric generation operations at Gorsuch. AMP determined it to be in the best interest of the participating member communities to cease electric generation operations at the facility by Dec. 15, 2010. The decision stems from a consent decree reached between the U.S. EPA and AMP that resolves all issues related to a Notice of Violation (NOV) issued by the USEPA that alleged that certain work performed at Gorsuch in 1981-1986 (before AMP had an interest in Gorsuch), and in 1988-1991 (after AMP had 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 a robust energy efficiency initiative administered by a third party, the Vermont Energy Investment Corp. The Efficiency Smart Power Plant will include services for residential, commercial and industrial customers and will be designed to help participating AMP member communities save 70,000 MWhs over a set period. Gorsuch participants are responsible for all plant closing costs, which AMP may determine to recover over some future period of time from the participants. This settlement is pending approval by the United States District Court of Ohio.

### **Gas Turbine Project**

In August 2003, AMP acquired three generating sites, each containing two gas turbines with a combined nameplate capacity of 49.5 MW located within the electric system of a Member. AMP's ownership of these units includes spare parts that are sufficient for the assembly of already-permitted expansion sites at two locations. Capacity and energy is being sold to 33 AMP Members participating in the Gas Turbine Project. The participants have each entered into power schedules that obligate each municipality to make monthly payments equal to the Gas Turbine Project revenue requirements, including operating and maintenance expenses and debt service charges each month. The debt is non-recourse to AMP. In December 2006, AMP issued \$13,120,000 of variable rate bonds to permanently finance the project. AMP entered into a cost of funds interest rate swap on the same day as the bond issuance. Interest on the interest rate swap is payable monthly at 3.89% per annum. \$335,000 in scheduled principal payments were made in March 2009. At December 31, 2009, \$11,885,000 of principal was outstanding on this debt.

## **Diesel Units**

AMP owns ten 1.825 MW Caterpillar diesel units. Six of these units have been located in a member community's electric system under a twenty-year power purchase arrangement, which includes payment of debt service. At December 31, 2009, the outstanding debt on these units was \$2,839,000 at an interest rate of 3.00%. The remaining four units are installed and operating under capacity contracts with AMP Members. At December 31, 2009, \$2,220,000 of tax-exempt bond anticipation notes was outstanding on this project at an interest rate of 2.00%.

## **AMP-Generating station Project (AMPGS Project)**

In November 2009, the participants of the AMP-Generating Station Project (the "AMPGS Project") voted to terminate the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be about a \$3 billion dollar project but the project's targeted capital costs increased by 37% and the engineer, procure and construct (EPC) contractor could not guarantee that the costs would not continue to escalate any higher.

AMP is exploring the option of developing the project as a natural gas combined cycle facility supplemented with market purchases and pursue future enhancements for the project, such as biomass or other advanced energy technology.

A total of 81 member communities in Ohio, Michigan, Virginia and West Virginia are participants in the AMPGS Project, which has been under development approximately six years as a pulverized coal facility with ammonia scrubbing emission control technology. To date, minimal construction of the AMPGS Project has taken place at the Meigs County site.

The potential conversion will allow AMP and its members the option of utilizing the current project site and benefiting from much of the development work performed thus far should that be the best option for participants. AMPGS project participants will have the option of securing needed replacement power from softened wholesale power markets.

The AMPGS project participants signed "take or pay" contracts with AMP. As such the participants of the AMPGS Project are obligated to pay any costs incurred for the project at this time. To date it has not been determined what those total final costs are for the project participants. AMP does anticipate that any project costs that are not recovered as part of a replacement project would be financed by AMP and recovered from the participating members over a period of years to be determined.

As a result of these decisions to date, the AMPGS Project has been classified as plant held for future use as of December 31, 2009 in the consolidated balance

sheet. During 2010, the AMPGS Project participants are expected to make a final decision related to the planned use of the site. At that time, these costs may be reclassified to construction work-in-progress. If it is determined that any costs incurred to date will not be able to be used as part of the new project and related technology, these costs will be determined to be impaired and reestablished as a regulatory asset to be recovered from the AMPGS Project participants as part of their obligations under the "take or pay" contracts.

### **AMPO, Inc.**

Formed in 1998, AMPO, Inc. is a wholly owned taxable subsidiary of AMP whose purpose is to provide direction and service to local governments and other energy consumers in evolving energy markets. This includes the development and implementation of local electric and gas aggregation programs, review and negotiation of energy contracts and the evaluation and implementation of energy supply alternatives for local business, industry and government. AMPO, Inc. currently works with over 60 Ohio communities to offer natural gas and/or electric aggregation programs to residential and small commercial customers. AMPO, Inc. does not take title to the natural gas or electricity, but only facilitates those aggregation programs. Accordingly, AMPO, Inc. has no supply or price risk regarding the supplies it facilitates.

### **Summary of Ohio Municipal Electric Joint Venture Projects**

Beginning in 1992, pursuant to provisions of the Ohio Revised Code, AMP began sponsoring the creation and organization of municipal joint ventures among certain of its Ohio Members for the purpose of acquiring certain electric utility assets.

- **Ohio Municipal Electric Generation Agency Joint Venture 1 (“OMEGA JV1”)** consists of six diesel-fired units totaling 9 MW of distributive generation capacity located in Cuyahoga Falls, Ohio. OMEGA JV1 was organized by 21 AMP Members (“Participants”) in April 1992. OMEGA JV1 has no debt.
- **OMEGA JV2** was organized by 36 AMP Members in November 2000. The distributed generation project consists of two 32 MW gas-fired turbines, one 11 MW gas-fired turbine and 34 1.825 MW and one 1.6 MW diesel generators for a total of 138.65 MW. All the units are sited near or in the participant’s municipal electric system. The project was purchased from AMP in December 2000 by OMEGA JV2 issuing a promissory note in the amount of \$58,570,598. In January 2001, AMP issued \$50,260,000 of fixed-rate 20-year bonds from the financing participants in the project, the net proceeds of which were \$45,904,712. Non-financing participants contributed \$12,665,886 to the project. As of December 31, 2009, \$35,670,000 of the bonds were outstanding. The debt is non-recourse to AMP.

- **OMEGA JV4** was organized by four AMP Members in December 1995. The project consists of a 69kV three-phase transmission line located in Williams County, Ohio that electrically connects Members City of Bryan, Village of Montpelier and Village of Pioneer. The project has no debt.
- **OMEGA JV5** was organized in April 1993 by 42 AMP member communities to acquire, construct and install a 42 MW run of the river hydroelectric generator at the Belleville Locks and Dam on the Ohio River, including related transmission facilities and 28 MW of diesel-fired back-up electric generators and related facilities (OMEGA JV5 Project). OMEGA JV5 also entered into a prepaid lease arrangement with the City of Oberlin for an additional 12 MW of back-up capacity through May 31, 2009. In June 1993 OMEGA JV5 issued \$153.4 million of Beneficial Interest Certificates (BIC's) to fund project construction. OMEGA JV5 requires that Participants make payments: (i) sufficient to pay debt service on any bonds or obligations (OMEGA JV5 Obligations) issued, or to be issued (including additional bonds), by or on behalf of the OMEGA JV5 to pay costs of the OMEGA JV5 Project (OMEGA JV5 Debt Service Payments): (ii) required for any reserve or other fund or account under a trust indenture securing OMEGA JV5 Obligations or for provisions of a liquidity instrument or credit enhancement for OMEGA JV5 (Other Indenture Payments): (iii) sufficient to pay the operation and maintenance expenses incurred by OMEGA JV5 (OMEGA JV5 Operating Expenses): (iv) sufficient to supply all other amounts required by the OMEGA JV5 Agreement (OMEGA JV5 Other Required Payments): and (v) the Participant's portion of payments for (i) through (iv) which is attributable to a defaulting Participant's share of ownership (Step Up Costs). The Omega JV5 Obligations initially issued were in the aggregate principal amount of \$153,415,000 (1993 BIC's). Subsequently, on July 26, 2001, OMEGA JV5 borrowed an additional \$13,899,981 (2001 BIC's). The 2001 BIC's are non-callable and accrete in value to \$56,125,000 until maturity in years 2025-2030. The 1993 BIC's were refunded on February 17, 2004 through the issuance of \$116,910,000 (2004 Refunding BIC's). As of December 31, 2009, the principal outstanding on the 2004 Refunding BIC's was \$95,585,000. The debt is non-recourse to AMP.
- **OMEGA JV6** is comprised of ten AMP Members. OMEGA JV6 was organized in December 2003. The project currently consists of four 1.825 MW Wind Turbines located near Bowling Green, Ohio. The project is designed to bring low pollution electric generating capacity to the ten AMP members participating in the project. In July 2004, AMP entered into a \$9,861,000 private placement arrangement on behalf of OMEGA JV6 to fund the project. Under the terms of the private placement debt service of \$500,000 is paid semi-annually on each February 15 and August 15 until final payment is made. The interest rate is reset each debt service payment date based on a published index. Under the terms of the arrangement, the bonds are subject to redemption at the discretion of AMP upon 180 days written notice. The bonds are also subject to optional tender at the discretion of the borrower under the same terms and

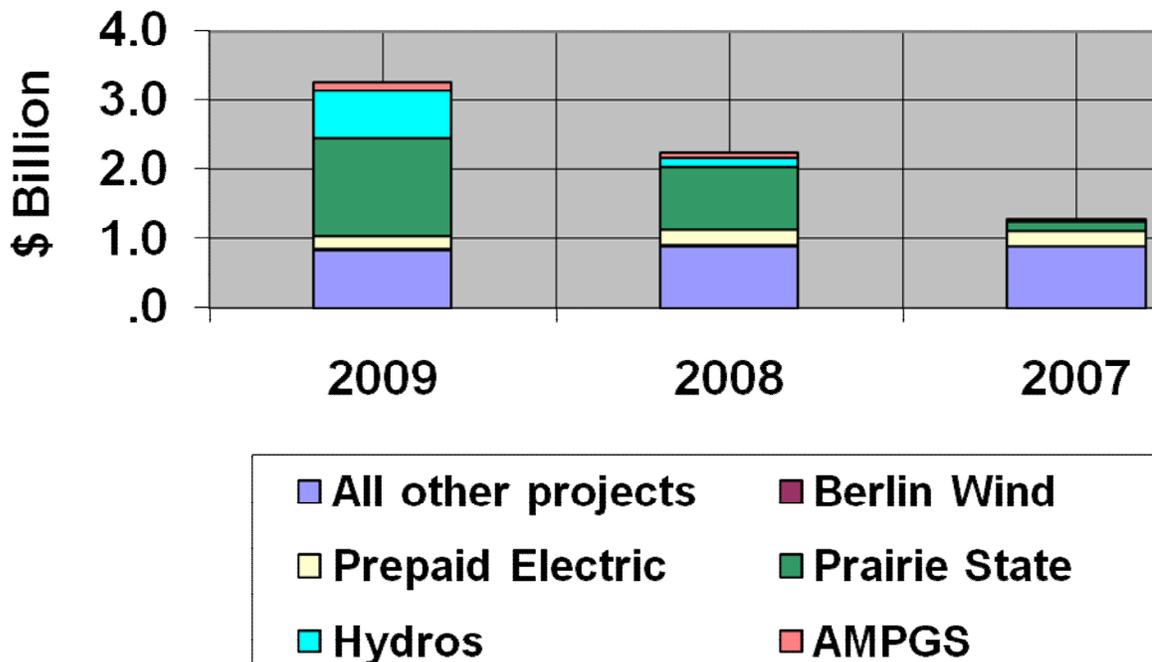
conditions. At December 31, 2009, the outstanding debt was \$5,899,000. The debt is non-recourse to AMP.

- Municipal Energy Services Agency (MESA)** was organized by 31 Members in December 1996. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training, finance, administration and other aspects of the operation and maintenance of a municipal electric system. MESA has no debt.

### Combined Balance Sheets

AMP's balance sheet grew to over \$3 billion in 2009, an increase of almost \$1.1 billion. These increases were driven by construction expenditures and funds raised for AMP's Prairie State and Combined Hydro generation projects. In 2009, construction work in process increased by \$468.4 million and trust assets that will be used to fund future construction and construction funding expenses for these projects grew \$574.7 million. The transformation of AMP's balance sheet can be seen below:

## AMP Total Assets



**Combined Balance Sheets**  
**AMP Total Assets**

<b>Assets</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
Utility Plant, Net	\$ 205,776,835	\$ 220,923,054	\$ (15,146,219)
Non-utility Property and Equipment, net	10,803,075	11,202,437	(399,362)
Construction Work-in-Progress	918,474,493	450,070,916	468,403,577
Plant held for future use	113,310,685	0	113310685
Coal Reserves	26,612,000	26,612,000	-
Trustee Funds and Other Assets	1,311,841,232	784,351,506	527,489,726
Current Assets	506,733,720	517,567,769	(10,834,049)
Total Assets	\$ 3,093,552,040	\$ 2,010,727,682	\$ 1,082,824,358

Key components of the balance sheet and their changes are discussed below:

- **Utility plant assets** of \$205,776,835 decreased by \$15,146,219 vs. 2008 due primarily to depreciation expense of \$14,151,154. Fixed Assets for both plant and non-utility property and equipment are depreciated using the straight-line method over their estimated useful lives.
- **Non-utility property and equipment** of \$10,803,075 decreased \$399,362 due to the sale of AMP's former headquarters facility and depreciation expense of \$777,749, partially offset by enhancements in AMP's disaster recovery facilities and the build-out of AMP's new headquarters facility that was purchased in 2008.
- **Construction work-in-progress (CWIP)** increased by \$468,403,577 due primarily to AMP's share of the Prairie State Project construction expenses and CWIP expenditures for the Cannelton, Smithland and Willow Island hydro plant projects.
- **Plant held for future use** represents AMP's investment in AMPGS CWIP. \$113,310,685 was reclassified from CWIP to this account at year-end.
- **Coal Reserves** of \$26,612,000 represent AMP's share of the coal reserves for the Prairie State Project as of December 31, 2009, and are unchanged vs. the prior year.

### Trustee Funds & Other Assets (Long Term)

	2009	2008	Change
Trustee Funds	\$ 1,060,938,762	\$ 501,175,049	\$ 559,763,713
Intangible & Other Assets	36,486,702	15,784,921	20,701,781
Investments	4,793,061	4,573,013	220,048
Notes Receivable - Long Term	3,075,000	-	3,075,000
Regulatory Assets	39,064,994	31,846,268	7,218,726
Prepaid Power Purchases	115,520,182	173,201,258	(57,681,076)
Long Term Financing Receivable - Members	42,642,798	46,503,488	(3,860,690)
Prepaid Pension Costs	9,319,733	11,267,509	(1,947,776)
Trustee Funds & Other Assets	<u>\$ 1,311,841,232</u>	<u>\$ 784,351,506</u>	<u>\$ 527,489,726</u>

- **Trustee funds and other assets** increased by \$527,489,726 to \$1,311,841,232 due primarily to the deposit of new Prairie State and Hydro debt proceeds in trust accounts. Trustee funds are discussed in more detail in Note 9 of the Combined Financial Statements. Other components of the increase include:
  - **Intangible and other assets** increased \$20,701,781 to \$36,486,702 as the costs of issuance from the Prairie State and Hydro bond issues were capitalized.
  - **Investments.** Earnings on Gorsuch investments resulted in a \$220,048 increase in investments to \$4,793,061.
  - **Notes Receivable–Long-Term** increased \$3,075,000 to \$3,075,000. AMP received this security as part of the proceeds of the sale of its former headquarters in 2009.
- **Regulatory assets** increased \$7,218,726 to \$39,064,994, primarily as a result of PJM cost recovery expenses billed to AMP and RHGS debt service and interest expense that will be collected in future periods.

These increases were offset by the following reductions as their resources were consumed in 2009. Prepaid power decreased by \$57,681,076 to \$115,520,182, and prepaid pension costs decreased by \$1,947,776 to \$9,319,733. Long-term financing receivables from members decreased by \$3,860,690 to \$42,642,798 as the principal amounts of these debts were repaid in accordance with the terms of their debt indentures, and the dollar amount of debt service that is collected in advance was correspondingly reduced.

<b>Current Assets</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>
Cash & Equivalents	\$ 48,619,304	\$ 145,535,851	\$ (96,916,547)
Cash & Equivalents-Restricted	24,067,003	6,295,352	17,771,651
Investments	21,952,692	11,191,472	10,761,220
Trustee Funds	181,195,784	166,306,463	14,889,321
Collateral Postings	20,175,106	-	20,175,106
Accounts Receivable	83,168,665	62,830,386	20,338,279
Financing Receivables - Members	31,256,326	35,897,372	(4,641,046)
Inventories & Emission Allowances	20,679,923	15,627,545	5,052,378
Regulatory Assets - Current	15,616,852	15,101,523	515,329
Prepaid Power Purchase Asset	57,681,076	57,681,076	-
Prepaid Expenses & Other Assets	2,320,989	1,100,729	1,220,260
	\$ 506,733,720	\$ 517,567,769	\$ (10,834,049)

- **Current assets** decreased by \$10,834,049 to \$506,733,720 due to decreases in cash and cash equivalents of \$96,916,547 and in financing receivables – members of \$4,641,046. These decreases were largely offset by increases in the following:
  - **Cash & Cash Equivalents – Restricted** increased by \$17,771,651 to \$24,067,003 due primarily to funds deposited to collateralize workers compensation and liability insurance. Investments.
  - **Trustee Funds** increased \$14,889,321 to \$181,195,784 due to funds deposited from the proceeds of additional Prairie State and Hydro debt that are expected to be spent in the coming year.
  - **Collateral Postings** increased \$20,175,106 to \$20,175,106 as a result of lower energy prices. In accordance with AMP’s power purchase agreements, these were funds deposited with AMP counterparties as security for long term power purchase contracts.
  - **Accounts Receivable** increased by \$20,338,279 to \$83,168,665.
  - **Investments** increased \$10,761,220 to \$21,952,692. Additional cash was invested in CD’s with maturities over 90 days.
  - **Inventories and Emission Allowances** increased by \$5,052,378 to \$20,679,923 due to increased coal stocks. During 2009, it was sometimes more economic to purchase energy than to increase power generation.
  - **Prepaid expenses** increased by \$1,220,260 to \$2,320,989 due to the timing of insurance premium payments.

**Combined Condensed Balance Sheet  
Equities and Liabilities**

	2009		2008		Change
Member and Patron Equities	\$ 99,597,959	\$	98,439,881	\$	1,158,078
Long Term Debt	2,641,758,857		1,584,309,459		1,057,449,398
Current Liabilities	287,484,072		258,929,444		28,554,628
Noncurrent Liabilities	64,711,152		69,048,898		(4,337,746)
Total Liabilities	<u>\$ 2,993,954,081</u>	<u>\$</u>	<u>1,912,287,801</u>	<u>\$</u>	<u>1,081,666,280</u>
Total Liabilities and Equity	<u>\$ 3,093,552,040</u>	<u>\$</u>	<u>2,010,727,682</u>	<u>\$</u>	<u>1,082,824,358</u>

**Total liabilities and equities** increased \$1,082,824,358 to \$3,093,552,040.

- **Equities.** Total member and patron equities increased by \$1,158,078 to \$99,597,959 in 2009. This was due to AMP's current period earnings of \$2,106,281, the JVs' current period earnings of \$452,713, and capital contributions from new members of \$25,631, offset by distributions to project participants of \$1,426,547.

**Long Term Debt**

	2009		2008		Change
Total Notes and Bonds Payable	\$ 2,523,594,348	\$	1,410,336,216	\$	1,113,258,132
Current Portion	(98,243,491)		(87,029,750)		(11,213,741)
Noncurrent Portion	<u>\$ 2,425,350,857</u>	<u>\$</u>	<u>1,323,306,466</u>	<u>\$</u>	<u>1,102,044,391</u>
Term Debt on Behalf of Members	51,408,000		55,298,000		(3,890,000)
Revolving Credit Loan and CP Facility	165,000,000		205,704,993		(40,704,993)
Total Long Term Debt	<u>\$ 2,641,758,857</u>	<u>\$</u>	<u>1,584,309,459</u>	<u>\$</u>	<u>1,057,449,398</u>

- **Long Term debt.** The long-term portion of term debt at December 31, 2009 was \$2,641,758,857, an increase of \$1,057,449,398. Long term debt increased by \$1,102,044,391 to \$2,425,350,857 in 2009. The long term portion of term debt on behalf of members decreased \$3,890,000 to \$51,408,000. Line of credit and commercial paper borrowings decreased \$40,704,993 to \$165,000,000. Term debt is discussed in more detail in Note 8 of AMP's Combined Financial Statements.
  - **Total notes and bonds payable** increased by \$1,113,258,132 to \$2,523,594,348 in 2009, due primarily to the issuance of:
    - Prairie State Energy Campus Project Revenue Bonds, Series 2009 A, Series 2009 B, and Series 2009C totaling \$636,145,000
    - AMP Hydro Project Revenue Bonds, Series 2009A, Series 2009 B, Series 2009C, and Series 2009D totaling \$665,105,558

- AMP Bond Anticipation Notes totaling \$16,072,550.
- This new debt was offset by the retirement of the \$120,000,000 Prairie State Bond Anticipation Note, series 2008, the \$8,000,000 AMP 2.25% project notes due October 29, 2009, and the \$4,097,550 AMP 3.75% project notes due October 29, 2009 and scheduled principal payments totaling \$74,335,000 for the Electricity Purchase Revenue Bonds, the Gorsuch Station Bonds, the OMEGA JV5 2004 refunding BIC, (\$52,140,000, \$17,720,000, and \$4,475,000, respectively) and the amortization of bond issuance discounts and premiums
- **Term debt on behalf of members.** The long term portion of Term Debt on behalf of members of \$51,408,000 as of December 31, 2009 decreased \$3,890,000 vs. prior year levels as members refinanced their debt for at lower amounts than 2008 levels.
- **Line of credit and commercial paper (CP)** borrowings of \$165,000,000 at December 31, 2009 decreased \$40,704,993 vs. 2008. Prairie State and the Hydro Projects used this facility to fund interim construction requirements, which were repaid with term debt proceeds.

#### Current Liabilities

	2009	2008	Change
Accounts payable	\$ 102,151,238	\$ 58,043,736	\$ 44,107,502
Accrued salary and related benefits	2,324,983	2,450,564	(125,581)
Accrued pension and postretirement benefits	699,000	595,000	104,000
Accrued interest	34,326,058	32,362,513	1,963,545
Term debt - current	98,243,491	87,029,750	11,213,741
Term debt on behalf of members - current	34,913,000	40,131,150	(5,218,150)
Regulatory liability - current	4,411,409	2,727,388	1,684,021
Margin funds on deposit	-	19,800,000	(19,800,000)
Other liabilities	10,414,893	15,789,343	(5,374,450)
<b>Total current liabilities</b>	<b>\$ 287,484,072</b>	<b>\$ 258,929,444</b>	<b>\$ 28,554,628</b>

- **Current Liabilities** of \$287,484,072 increased by \$28,554,628, due primarily to:
  - **Accounts payable** levels increased by \$44,107,502 to \$102,151,238 due to increased construction activity.
  - **Accrued interest** increased \$1,963,455 to \$34,326,058 due to higher amounts of debt outstanding.
  - **The current portion of term debt** increased by \$11,213,741 to \$98,243,491 as a result of increases in the scheduled return of principal on AMP term debt that is due within one year.

- **Margin funds on deposit** decreased from \$19,800,000 to zero, in accordance with the terms of AMP’s agreements with its counterparties.
- **Term debt on behalf of members – current** decreased \$5,218,150 to \$34,913,000. Members repaid or reduced the principal amount of debt that is due within one year.
- **Other liabilities** decreased \$5,374,450 to \$10,414,893 due to reductions in swap mark-to-market liabilities and construction retainage, partially offset by increased expense accruals.

#### Other non-current liabilities

	2009	2008	Change
Accrued pension and postretirement benefits	\$ 5,421,045	\$ 4,219,998	\$ 1,201,047
Deferred gain on sale of building	1,276,789	-	1,276,789
Asset retirement obligations	9,734,369	10,737,220	(1,002,851)
Other long-term liabilities	1,438,827	1,332,798	106,029
Regulatory liability	46,840,122	52,758,882	(5,918,760)
Total other non-current liabilities	\$ 64,711,152	\$ 69,048,898	\$ (4,337,746)

- **Other non-current liabilities** of \$64,711,152 decreased by \$4,337,746 vs. 2008.
  - **Accrued pension and postretirement benefits** increased \$1,201,047 to \$5,421,045 due primarily to increases in estimated post retirement benefits.
  - **Deferred gain on sale of building.** Because a substantial portion of the sale proceeds was a long term note receivable, gains on the sale are deferred.
  - **Asset retirement obligations** decreased \$1,002,851 to \$9,734,369 due to higher interest rates at the end of 2009 and lower estimated costs for restoration activities.
  - **Regulatory liabilities** decreased \$5,918,760 to \$46,840,122 as deferred liability funds were used to supplement member billings for energy that replaced Lehman power purchases and RHGS operating costs.

## Combined Statements of Revenues and Expenses

	2009	2008	Change
Total Revenue	\$ 778,124,304	\$ 615,992,099	\$ 162,132,205
Total Operating Expense	776,622,489	614,936,428	161,686,061
Operating Margin	\$ 1,501,815	\$ 1,055,671	\$ 446,144
Interest income	760,951	2,692,189	(1,931,238)
Other income, net	296,228	2,203,047	(1,906,819)
Nonoperating revenues and expenses, net	\$ 1,057,179	\$ 4,895,236	\$ (3,838,057)
Net Margin	\$ 2,558,994	\$ 5,950,907	\$ (3,391,913)

- **Total revenue** of \$778,124,304 increased by \$162,132,205 over 2008 levels. This was primarily to increases of \$160,238,166 in electric revenue as a result of increased kWh sales to members and third parties. A portion of the increase was also due to rate increases associated with long-term power supply contracts entered into in prior periods. Service fees were essentially flat, decreasing by \$9,415. This was a result of the addition of 3 new members in 2009, and additional sales of power to third parties. Program revenue increased \$1,858,454 in 2009.
- **Operating expenses** of \$776,622,489 increased \$161,686,061 due to increases in purchased power expense of \$163,555,216, increased interest expense of \$1,234,815, and increased administrative and general expenses of \$379,284. These changes were partially offset by a decrease in production expenses of \$1,023,637, decreased fuel expenses of \$2,613,760, and decreased property and real estate taxes of \$12,513.
- **Operating Margin.** The Combined Statements of Revenues and Expenses reflect an operating margin of \$1,501,815 for 2009, an increase of \$446,144 vs. 2008 levels. This is primarily due to improvements JV5's net margin, which increased \$3,260,217 due to very high levels of utilization, offset by lower AMP, MESA and JV6 operating margins.
- **Total non-operating revenues and expenses** decreased by \$3,838,057 due to a \$1,931,238 reduction in interest income and a \$1,906,816 decrease in other income, due to a one-time gain in 2008.
- **Combined net margins** of \$2,558,994 decreased by \$3,391,913. This was primarily due to decreased nonoperating margins, partially offset by higher operating margins

## Combined Statements of Cash Flows

	2009	2008	Change
Net cash provided from operating activities	\$ 1,102,437	\$ 60,440,232	\$ (59,337,795)
Net cash used in investing activities	(1,150,700,844)	(934,180,426)	(216,520,418)
Net cash provided by financing activities	1,052,681,860	920,955,975	131,725,885
Net change in cash and cash equivalents	\$ (96,916,547)	\$ 47,215,781	\$ (144,132,328)
Cash and cash equivalent, beginning of year	\$ 145,535,851	\$ 98,320,070	\$ 47,215,781
Cash and cash equivalents, end of year	\$ 48,619,304	\$ 145,535,851	\$ (96,916,547)

Total cash and cash equivalents decreased \$96,916,547 in 2009 to \$48,619,304.

- **Operating activities** generated \$1,102,437 of cash and cash equivalents, a decrease of \$59,337,795 as cash was used to fund collateral deposits with insurance companies and counterparties (\$20,175,106 and \$19,800,000, respectively), higher regulatory assets of \$11,968,794 and changes in working capital
- **Investing activities** consumed \$1,150,700,844 of cash and cash equivalents in 2009, \$216,520,418 more than 2008 levels. Construction work in progress consumed \$546,459,081, an increase of \$242,410,524 vs. 2008 levels. Investments consumed \$584,858,474 as bond proceeds were deposited to trust accounts that will fund construction, cost of issuance and debt service expenditures for Prairie State and the Hydro projects. Increases in restricted cash also consumed \$17,771,651, as funds were dedicated as collateral for liability and workers compensation insurance policies for AMP's construction activities at the hydro projects. Nonutility property and equipment increased \$1,521,710 due to the buildout of AMP's new headquarters facility and enhancement of AMP's IT infrastructure and disaster recovery capabilities.
- **Financing Activities.** Net cash flow provided by financing activities of \$1,052,681,860 in 2009 increased by \$131,725,885 vs. 2008. This change was principally due to:
  - The issuance of \$1,674,859,720 in new term debt in 2009 and repayment of \$561,096,962 of scheduled principal payments on term debt.
  - Net borrowings on the revolving credit line and commercial paper facility decreased \$40,704,993.
  - The cost of issuance for new debt reduced cash by \$18,281,305.
  - Cash flows related to “on-behalf of” financings, which decreased cash by \$693,684.
  - Distributions to participants of JV4 and JV5, which reduced cash by \$172,351 and \$1,254,196, respectively.

## **Management's Responsibility for Financial Statements**

The Combined Financial Statements of AMP were prepared by management, who takes responsibility for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and are consistent with other financial information appearing in this report.

PricewaterhouseCoopers LLP, an independent public accounting firm, has expressed an unqualified opinion on AMP's 2009 Combined Financial Statements.

Management recognizes its responsibility for establishing and maintaining adequate internal controls over financial reporting.