Moody's Investors Service

Rating Update: MOODY'S ASSIGNS A1 ISSUER RATING TO AMERICAN MUNICIPAL POWER; OUTLOOK STABLE

Global Credit Research - 21 Apr 2010

FINANCIAL STRENGTH RATED A1

Public Power
OH

Opinion

NEW YORK, Apr 21, 2010 -- Moody's has assigned an A1 long-term issuer rating to the American Municipal Power, Inc (AMP). This rating is intended to be used as an assessment of the agency's financial strength.

The rating incorporates the competitive power supply of AMP and the competitive retail rates of its members; the sound legal protections which underlie cost recovery including the power supply contracts between AMP and its members; strong state statutes which provide for monopoly control over their service areas and unregulated rate setting; and the A2 average weighted credit quality of AMP's diverse group of cities that have municipal electric utility systems. AMP's strong management including its strategic power supply planning; and satisfactory liquidity are also factored into the rating. Also considered is the changed profile of the agency that has moved from market-based power supply to owned generation.

OUTLOOK:

Moody's believes AMP's management and its sound resource planning will maintain a stable credit position.

What Could Change the Rating Down

The rating could be lowered if the AMP generation projects that under construction experience significant cost overruns and impact the agency's competitive position and pressure participant's compliance with power supply agreements.

What Could Change the Rating Up:

The successful completion of the shift to more generation ownership and maintenance of the agency's competitive cost structure could factor in upward pressure on the rating.

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 cost recovery due to sound AMP power supply contracts with its members; the unregulated rate setting authority of AMP and most of its member municipal utilities, including AMP's statutory authority to increase rates on a timely basis and members' ability to pass on purchased power costs to retail customers.

*No direct retail competition

*Average weighted credit quality of the diverse group of AMP"s member cities is A2 on municipal scale with no concentration risk

*Strong contract enforcement provisions given AMP's authority in the event of a contract default by a member, in addition to AMP's credit monitoring system which provides an early warning of fiscal stress

*The level and availability of internal and external liquidity with satisfactory terms and conditions

*Demonstrated record of success in managing power supply for most municipal electric utilities in Ohio

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

CHALLENGES:

*Canceled AMPGS project left stranded costs to be shared by participants in that project

*Strategic plan to shift from market to generation ownership has increased leverage but typical for JPA

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

*Managing power supply purchases in restructured wholesale electricity market

*Costs associated with environmental compliance at Gorsuch Station and future greenhouse gas regulations at Prairie State

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

*Unemployment in region AMP serves is above average

DESCRIPTION OF AMP-ROLE: VALUE-ADDED SERVICE AND ECONOMIC BENEFITS TO MUNICIPAL ELECTRIC UTILITIES

AMP was established by state statute (Ohio Revised Code Chapter 1702) as a non-profit corporation in 1971 to provide its members, which are municipal electric utilities, to provide for a reliable and competitive power supply. AMP is governed by a Board of Trustees made up of officials from member municipalities. AMP operates like a joint powers agency and most of its members have home rule charters which permit retail rates to be set by the local governing boards with no external regulation. The Ohio members have their authorization to enter into power sales contracts derived from the state constitution. AMP has obtained a determination letter and qualifies as a Section 501(c) 12 corporation and has a private letter ruling that in effect permits it to issue tax-exempt bonds. AMP has a master services agreement with all its members that provides a legal framework for the relationship of the municipal electric utility and AMP as it relates to power pools, energy products, power supply arrangements and individual services.

In 2009, non-coincident peak demand of AMP's 128 members was 3,031 MW, almost 50% higher than in 2005 primarily due to new members joining the agency and partly due to load growth . AMP has supplied a part of that peak demand from 627 MW of generation that it owns, with the balance coming from market purchases.

Rate competitiveness has been maintained with AMP members averaging retail rates in the 20% range lower than region's investor-owned utilities. It is noted that several AMP participants retail rates are higher than the regional average.

AMP has undertaken a significant shift in its power resource strategy from mostly market purchases to moving towards generation ownership. The main driver has been to mitigate the volatility that municipal electric utilities have had to face with the restructured wholesale power markets. AMP forecasts it will move to reliance on market power for under 15% of its energy by 2014. The base load power supply projects that AMP has participated in the financing of are projected to be competitive power sources and are secured by 50-year take-or-pay contracts with AMP members. For example, the low fuel costs of the Prairie State project is expected to be a significant advantage once that power generation facility is commercial. Prairie State is close to schedule and budget with expected substantial completion date of the first unit on August 1, 2011 and unit 2 on May 1, 2012.

STRONG COST RECOVERY PROTECTIONS

AMP's municipal utility members purchase non-project capacity and energy from AMP pursuant to take-and-pay contracts with its members. The contracts are not secured by the full faith and credit of the respective cities. AMP members by their choice also participate on a take-or-pay basis in AMP-sponsored projects including AMP's share of the financing of the Prairie State Project, the 1600 MW coal-fired generation plant. AMP members who chose to participate in that project have a 50-year take-or-pay contract and are obligated to pay for the their allocated share of the O&M and debt service costs.

The contracts are payable from utility enterprises, the funds of which are accounted for separately from general government funds.

However, if there is a payment default, AMP has the power to suspend delivery, which in Moody's opinion creates a significant incentive to pay given the essential nature of the service. If nonpayment persists, AMP could bring litigation against the city and seek a judgment against the city's assets, including non-utility assets. AMP has never experienced a payment default.

Payment compliance is aided by a credit monitoring program which produces early warning reports should a city be in fiscal distress. The Ohio state auditor also has fiscal emergency powers related to the Ohio members that could place a city on Fiscal Watch or Emergency to correct a fiscal stress problem.

AMP MEMBERS CREDIT CHARACTERISTICS WEIGHTED HEAVILY IN CREDIT RATING

Among the factors the issuer rating incorporates are the general credit characteristics of AMP's members. AMP has 128 members in six states (Ohio, Kentucky, Pennsylvania, Michigan, Virginia and West Virginia). About 75% of AMP sales revenue comes from Ohio-based municipal electric utilities. Moody's has determined the average credit quality of AMP municipal participants is A2. Moody's uses its Q-rate methodology which is a statistical model based on several key rating factors to estimate credit standing of many of the smaller AMP members. Moody's believes there is a close and direct relationship between the member cities' general credit and that of its municipal utility.

The fundamental credit strengths AMP's members include near-monopoly status in their service areas and unregulated rate setting authority. Municipal electric utilities in Ohio are not subject to state regulation nor are they required to participate in retail choice programs. Retail rates are established by the local governing boards and are not subject to external regulatory review. Most AMP member municipal electric utilities had competitive rates in all customer classes.

AMP FINANCIAL LIQUIDITY IS SATISFACTORY

AMP has three forms of liquidity: reserves associated with each of its projects, external lines of credit with banks, and the unregulated authority to raise rates. The agency has more than satisfactory liquidity in each of the separately secured project funds which is used for working capital purposes for its purchased power transactions and its owned generation facilities. The majority of AMPs financial operations relate to it providing power supply to its members. In 2009, AMP had electric sale revenues of over $755 million. AMP has in place substantial external revolving lines amounting to $550 million. The liquidity facility expire in 2012 and have various triggering events. The liquidity facilities are used for working capital to assist AMP in its management of its power purchases on behalf of its member municipal electric utilities. In addition, AMP has a tax-exempt commercial paper program currently authorized at $450 million for interim funding for the Prairie State and Hydro projects. AMP can also raise its charges to its members without any external regulation which is another form of future liquidity.

RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The rating assigned to American Municipal Power, Inc. was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in assigning the rating was Moody's Methodology on U. S. Public Power Utilities, published in April 2008, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website. The last rating action on AMP was in September 2009 with the assignment of an A1 to the Series 2009 Prairie State Energy Campus Revenue Bonds.

KEY FACTS:

AMP Member Peak Demand, 2009: 3,031 MW

Number of AMP members, 2010: 128

Revenues, 2009: $751 million

AMP Ownership in Prairie State %: 23.26%

Net Output of Prairie State: 1582 MW (AMP-Ohio share:368MW)

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