



Fitch Rates American Muni Power (OH) Prairie State Revs 'A'; Outlook Stable Ratings

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Fitch Ratings-New York-08 September 2010: Fitch Ratings has assigned the following ratings to American Municipal Power (AMP) Prairie State Energy Campus:

--\$300 million project revenue bonds, series 2010A, 2010B and 2010C 'A'.

The bonds are scheduled to price Sept. 22, 2010 and are expected to be the final Prairie State Energy Campus project revenue bond financing.

In addition, Fitch affirms the following ratings:

--\$1.5 billion AMP Prairie State Energy Campus (PSEC) project revenue bonds at 'A'.

The Rating Outlook is Stable.

RATING RATIONALE:

--The rating is supported by AMP's strong, court validated contracts with a diverse group of municipal electric systems (together 'participants'), each of which maintain sole rate setting authority.

--The rating is tempered by concerns related to the transition to owning generating units from purchasing power, namely: increased leverage and uncertainty regarding future market prices and operating performance of the new unit.

--Increased leverage is a function of AMP's long term strategy to own generation and theoretically, the increases in debt service payments will be offset by declines in purchase power costs.

--High fixed cost for the new units will likely result in prices that are initially above market rates; however, project participants are required to buy from the unit regardless of its cost relative to current market prices.

--Underlying project participants maintain solid financial metrics and policies; fuel adjustment mechanisms and unrestricted cash equal to at least six months of operating expenses (excluding purchase power costs) are two of the primary credit policies required by the agency for project participation and characteristics of investment grade ratings.

KEY RATING DRIVERS:

--Further cost increases and delays for the project could result in negative rating action; however, the newly amended Bechtel construction contract from a target price contract to a fixed price, date certain EPC contract should serve to mitigate some of these risks.

--Given the magnitude of AMP's capital plan (over \$4 billion), which includes the development of three generation projects simultaneously; Fitch will monitor AMP's ability and commitment to maintain liquidity sufficient to complete the projects.

SECURITY:

The bonds are payable from and secured solely by revenues from 68 project participants who are obligated to pay for the fixed price associated with debt service under long-term take-or-pay contracts, which include a 25% step-up provision to mitigate individual participant default.

CREDIT SUMMARY:

AMP is a non-profit wholesale power provider for retail municipal electric systems. As of Aug. 1, 2010, AMP had 128 Members- 82 in Ohio, 30 in Pennsylvania, six in Michigan, five in Virginia, three in Kentucky, and two in West Virginia. Collectively, the members serve approximately 575,000 end-customers. Construction is ongoing on 799 MW of hydro and coal-based generation, each of which is separately secured. While the participants in each project are unique, each project is secured by similar take-or-pay power supply contracts that include a 25% step-up requirement in the event of a participant default. In addition to the home rule powers granted in the State of Ohio, AMP's take-or-pay contract had been

recently court-tested in 2007.

AMP has a 23% or approximately 368 MW ownership in PSEC, a 1600 MW mine mouth, super-critical coal fired generating station consisting of two 800 MW units. After reports of continued project cost escalations, the PSEC owners (including AMP) reached an agreement to amend the existing construction contract with Bechtel on July 22, 2010 to a fixed price, date certain EPC contract. While the EPC contract is at a higher cost than in estimates, the fixed price nature and guaranteed completion dates for the two units mitigates concern of continued project cost escalations and delays. Bechtel is now obligated to meet performance guarantees and liquidated damages will be payable for future delays or less than expected performance. Plant construction is roughly 53% complete and four months delayed based on initial target.

The EPC contract is now \$4 billion or \$2,500 per kilowatt (kW) up from \$2.9 billion in 2007. AMP's total project cost, including additional contingency allowances, is now \$1.29 billion (or \$3,500 per kW). While the increase is significantly over original estimates, the final costs are not expected to be out of line with other coal units currently under construction. Additionally, at approximately \$58/kW the cost of energy from PSEC does not appear to be out of line with Fitch's wholesale market projections.

Of AMP's 128 members, 68 have entered into a take-or-pay power sales contract for a portion of the nominal power and associated interest of PSEC. The largest participants, Danville, Virginia and Hamilton, Bowling Green Cleveland, Piqua and Celina, Ohio (the 'large participants') account for 48% of the project's ownership. Positively, each of the participants have local rate setting authority and defined service territories, core characteristics consistent with the relatively strong credit ratings of public power entities. Additionally, participations must evidence strong financial metrics and policies to AMP in order to participate in each project including positive operating margins, unrestricted funds equal to six months of operating expenses (excluding purchase power contracts) and power cost adjustment mechanisms. Negatively, the underlying participants are small, unrated, with indirect debt levels related to PSEC and other AMP projects (top 10 weighted average of \$12,500 debt/customer) well in excess of the industry's averages (\$5,000 debt/customer).

Interest on the Prairie State debt is capitalized until the six months after the original scheduled in-service date of Aug. 1, 2011 for Unit 1 and May 1, 2012 for Unit 2 (ie: until Feb. 1, 2012 on outstanding bonds allocated to Unit 1 and Nov. 1, 2012 for bonds allocated to Unit 2). The target dates of the Amended and Revised EPC Contract with Bechtel of Dec. 15, 2011 and Aug. 1, 2012 are still within the time period of capitalized interest. AMP intends to begin charging members for the units on Jan. 1, 2012.

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In addition to the sources of information identified in the U.S. Municipal Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Related Research:

--'Public Power Rating Guidelines', dated 11 June 2009.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Related Research:

Public Power Rating Guidelines

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