



My Credit Profile



American Municipal Power Inc., OH, Prairie State Energy Campus Project Revenue Bonds Series 2010A Rated 'A'

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NEW YORK (Standard & Poor's) Sept. 8, 2010--Standard & Poor's Ratings Services has assigned its 'A' long-term rating to American Municipal Power Inc. (AMP), Ohio's Prairie State Energy Campus project revenue bonds series 2010A (taxable Build America Bonds). Standard & Poor's also affirmed its 'A' long-term and underlying ratings on parity obligations outstanding. The outlook is stable. The bonds are to finance what we expect will be the remaining costs associated with AMP's share of the Prairie State Generating Station (PSGS) project, a two unit, 1,582 megawatt mine-mouth coal project. The project owners include AMP, five wholesale electric utilities, two electric cooperative utilities, and a subsidiary of Peabody Energy Corp.

"The rating primarily reflects the credit quality of the largest participating members' retail electric systems," said Standard & Poor's credit analyst Jeffrey Panger. These members are unconditionally obligated to pay debt service on the bonds. The 10 largest of these retail electric systems would cover 59.6% of bond debt service. Participating members have agreed to a step-up not to exceed 25% of initial participation in the event of a participant default.

However, the entire participant base's depth and diversity enables Standard & Poor's to decouple the rating from a weak-link analysis. "We believe that the likelihood that the step-up provision will be fully tested is minimal, so the rating reflects the leading members' overall credit quality," Mr. Panger added. We have assessed the credit quality of these members to be, on balance, medium-investment grade.

Substantial cost overruns and expectations of delayed commercial operation have prompted the project owners to renegotiate their engineer, procure, and construct (EPC) contract with Bechtel Corp. PSGS was initially being built under a \$2.9 billion target-price EPC contract. With labor costs escalating and the project falling behind schedule, the owners entered an amended contract with Bechtel July 23, replacing the target price EPC with a \$3.99 billion, fixed-price turnkey contract. The new contract provides for liquidated damages in the event the guaranteed substantial completion dates are delayed (beyond the revised target dates) or if the units perform below guaranteed levels. While the increased costs and delayed commercial operation increases power costs to the project owners, Standard & Poor's does not believe that it has an impact on the AMP's creditworthiness.

As a project-based wholesale joint action agency, and under terms of participation agreements with members, AMP provides power based on each member's elected level of participation on a project-by-project basis. The cooperative operates several such projects on behalf of its members. The projects are not cross-collateralized, and separate billing and accounts exist

for each project. AMP currently has 128 utility members, (although not all are participating in PSGS), serving about 575,000 customers in Ohio, West Virginia, Pennsylvania, Michigan, Kentucky, and Virginia.

The stable outlook reflects what we view to be the depth and diversity of AMP's membership base. We believe that this, coupled with rate raising autonomy and step-up provisions, should provide the company with adequate support to meet financial obligations.

RELATED CRITERIA AND RESEARCH

USPF Criteria: Electric Utility Ratings, June 15, 2007

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