

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

**Credit and Capital Issues Affecting
the Electric Power Industry**

Docket No. AD09-2-000

Tuesday, January 13, 2009

**Written Statement of
Robert W. Trippe On Behalf of American Municipal Power-Ohio, Inc.**

Good afternoon, Mr. Chairman and members of the Commission. My name is Robert Trippe and I am Senior Vice President and Chief Financial Officer of American Municipal Power-Ohio, Inc. (AMP-Ohio). AMP-Ohio, headquartered in Columbus, Ohio, is for federal tax purposes a tax exempt corporation organized in 1971, which operates on a cooperative basis for the mutual benefit of its member municipalities (Members). AMP-Ohio's 126 Members are municipalities in Ohio, Michigan, Pennsylvania, Virginia, West Virginia and Kentucky that own and operate electric utility systems, and represent nearly 525,000 customers whose peak load is approximately 3,500MW. AMP-Ohio owns and operates electric generating facilities; provides wholesale generation, transmission and distribution services; and coordinates, negotiates and develops power supply options and interconnection agreements for its Members.

AMP-Ohio wants to thank the Commission for holding this conference to examine credit and capital market issues affecting the electric power industry and we appreciate the opportunity to discuss these topics with you today.

AMP-Ohio finances the construction and acquisition of generating facilities and also maintains a program to finance distribution system improvements for its Members. Permanent construction financing for these projects is accomplished through the issuance of long-term fixed rate tax-exempt bonds.

In the final analysis, AMP-Ohio Members are obligated to pay the debt service on bonds issued by AMP-Ohio. Therefore, the financial soundness and creditworthiness of the Members is most important. As a result, AMP-Ohio has established stringent financial criteria to be a Member. Some of these criteria include setting adequate rates, maintaining a power adjustment clause to collect all purchased power costs from customers and maintaining adequate cash reserves in the electric fund of the municipality. Further, AMP-Ohio has also established a credit scoring program whereby each Member is credit scored annually. The credit scoring criteria includes a comprehensive review of the annual audit report, compliance with debt covenants and establishment of investment and capital expenditure policies.

AMP-Ohio has embarked on a significant capital expenditure program to construct several generating facilities. The capital expenditure program is approximately \$7 billion through 2014. Those generating facilities include a 23.6% ownership interest in the 1,682MW Prairie State Project coal-fired facility in Illinois of approximately \$1.5 billion, approximately \$2.25 billion for 350MW of hydro development and approximately \$3.25 billion for construction of a new 1,000MW base load coal-fired facility in Ohio.

The projects noted above are part of a balanced portfolio of power supply assets with an underlying goal of 15+% of renewable resources. Additional aspects of this supply portfolio include (but are not limited to): a) to close or convert AMP-Ohio's existing 213MW coal-fired Gorsuch Station by the 2013-2014 timeframe; b) continue plans to construct up to 100MW of additional wind projects; and, c) explore the feasibility of constructing solar generation. In addition, AMP-Ohio is pursuing an aggressive energy efficiency program designed to achieve 1% annual energy savings by the 2015-2017 timeframe.

AMP-Ohio's asset construction strategy attempts to manage our Members' risks from a variety of economic, environmental and social sources. In particular, AMP-Ohio's construction program seeks to balance our Members future electricity needs with: a) the reality of a carbon-constrained economy; b) an increasing cost industry; and, c) flawed organized markets. This "balance" must also be achieved from a starting point of being "asset poor".

In support of the capital expenditure program, in December 2007, AMP-Ohio entered into a new syndicated bank credit agreement for \$450 million. The primary purpose of the facility was to provide for interim construction financing. In January 2008, AMP-Ohio initiated a \$350 million commercial paper program supported by a letter of credit from the bank facility. Commercial paper is a lower cost of interim construction financing as opposed to direct bank borrowings.

Unfortunately, the signs of deteriorating market for tax-exempt bonds and a general downturn in the overall economy began in early 2007 and became more pronounced in 2008.

1. In the past it was common to issue long-term tax exempt bonds and purchase an insurance policy from AAA rated insurance companies like MBIA or AMBAC, which guaranteed a AAA rating on the bonds and protected the bond holder against default. Those companies began experiencing financial difficulties in 2007.
2. The role of rating agencies began to come under scrutiny and municipal bond investors began to lose confidence that ratings were timely and evenly applied.
3. Credit availability began to tighten as commercial banks and other financial institutions absorbed losses from mortgage instruments.

A relevant example may help illustrate these broader trends. In December 2007, AMP-Ohio had committed to be a participant in the Prairie State Project. The financing plan was to issue long-term bonds in the first quarter of 2008. However, those plans had to be revised due to a litany of reasons, which include (but are not limited to) lack of long-term bond market access and volatile market and economic conditions, the meltdown of Bear Stearns, fewer bond insurers willing or able to provide bond insurance at economic premiums and higher than expected yields on long-term tax-exempt bonds. AMP-Ohio changed its strategy and on April 1, 2008 issued a \$120 million one year bond anticipation note to temporarily fund initial expenditures for the Prairie State Project. We continued to monitor market conditions during the next few months. Finally in late June, AMP-Ohio sold \$760 million of long-term fixed rate bonds, of which about \$176 million were insured.

Today, approximately \$600 million in Prairie State Project costs remain to be permanently financed and AMP-Ohio is faced with financing approximately \$5.5 billion in additional costs for the other electric generating facilities previously mentioned.

Also, in August 2008, AMP-Ohio issued approximately \$100 million of taxable variable rate bonds backed by a bank letter of credit to fund expenditures at an existing power plant. As upheaval in the financial markets worsened, AMP-Ohio saw the interest rate on these obligations (the rate is reset weekly) climb to historically high levels.

Economic and market conditions continued to deteriorate through the end of 2008.

1. AIG nearly collapsed.
2. Lehman Brothers declared bankruptcy.
3. Most monoline bond insurers had been substantially downgraded and bond insurance was either not available or uneconomical to purchase.
4. As the recession deepened, investors withdrew their money from tax-exempt mutual funds that have traditionally been large investors of tax-exempt bonds thus making market access even more difficult.
5. Long-term tax-exempt bond yields approached 7% by year-end.
6. Investment rates fell below 1%. When tax-exempt bonds are issued to fund construction projects, the bond proceeds are invested in a construction fund held by the bond trustee. The difference between the bond yield and the interest rate on the invested funds is called yield arbitrage. The current economic environment creates negative yield arbitrage, which adds to the construction costs of the project.
7. Bank credit support virtually disappeared. Most major institutional banks have been downgraded.
8. Top investment banking firms such as Goldman Sachs and Morgan Stanley reported their worst earnings in history and were downgraded.

In spite of AMP-Ohio's efforts to ensure the sound credit quality of its Members and its project financings, current economic conditions and distressed financial markets impair and threaten AMP-Ohio's capital expenditure program. If the capital program is

significantly delayed this will be detrimental to regional reliability and increase the economic and environmental risks of our Member electric systems. In light of these challenges, AMP-Ohio has undertaken a number of initiatives.

Organization and operations:

1. Reorganized the company under three senior vice presidents and added a vice president of risk control for efficiency and succession planning purposes.
2. Review operating budgets. Managers are required to make 10% reductions in 2009.
3. Aligned the organization to construct generating facilities.
4. Increase cash reserves and corporate liquidity.

Member monitoring

1. Step-up monitoring of Members' customers electric loads.
2. Continual monitoring of Members large customers for financial soundness and loss of load.
3. Monitor unemployment rates in Member communities.
4. Monitor income tax revenues in Member general funds
5. Monitor state budget deficits.

Despite the continuing distress in the financial markets, AMP-Ohio plans to continue with its capital expenditure program relating to its power portfolio. In addition, AMP-Ohio will continue investigating carbon capture and sequestration (CCS) for its AMPGS facility in Meigs County, Ohio. AMP-Ohio will also continue to support and apply for Clean Renewable Energy Bonds (CREBS). AMP-Ohio has been awarded \$29.2 million of CREBS the past two years. Unfortunately, due to the complexity of the CREBS program and the current lack of a viable market for these obligations, AMP-Ohio has been unable to issue any of its CREBS allocation to date.

AMP-Ohio's financing plan for 2009 is as follows;

1. Issue approximately \$150 million of long-term fixed rate bonds for the Prairie State Project by April 1 to pay off the \$120 million bond anticipation note issued last year.
2. Issue long-term fixed rate tax-exempt bonds by mid summer to fund approximately \$350 million of hydro capital expenditures.

This plan will include the following assumptions;

1. Bond insurance will not be available.
2. Bank credit support to issue variable rate bonds supported by a letter of credit will not be available.
3. The recession will continue.
4. Mutual funds and other institutional investors will not be very active in buying bonds due to lack of liquidity.

5. AMP-Ohio will rely more on underwriters who sell tax-exempt bonds to retail buyers.
6. AMP-Ohio will utilize its commercial paper program to fund interim construction costs and issue bonds to pay down commercial paper. This will help avoid negative arbitrage as investment rates are expected to remain low.

In summary, AMP-Ohio commends the federal government for considering corrective action to restore the nation's overall economic health. In considering what actions to take AMP-Ohio would recommend that the federal government consider the earlier recommendations on this topic made by the American Public Power Association (APPA). Specifically, the APPA had previously noted (in a letter to Congressional leadership) that "...the current situation in the bond markets is not allowing even the most creditworthy to obtain this necessary financing." The APPA continued by correctly noting that the situation (if allowed to continue) "...will gravely threaten the ability of municipality systems to provide reliable service or to invest in expansion of their systems to meet future demands."

Accordingly, AMP-Ohio is supportive (as is the APPA) of the effort to establish a bond insurance company backed by the federal government to provide tax-exempt bondholders insurance against default.

AMP-Ohio also strongly supports a federal government guarantee of tax-exempt bonds issued to develop hydro projects, coal generation projects and the development of clean coal technology for CCS. This is important for the environment. This is important for reliability. This is important for the creation and preservation of jobs. Coal is one of the most abundant resources in AMP-Ohio Member states.

