American Municipal Power, Inc.
Management's Discussion and Analysis
Combined Financial Statements
December 31, 2010

The following discussion and analysis provides an overview of the combined financial performance of projects owned or managed by American Municipal Power ("AMP") for the year ended December 31, 2010. 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.

About Our Organization

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 are owned directly by AMP. Power supply from an AMP owned project is delivered under a take-or-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 Inter-connection ("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.

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 ("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 law, AMP is subject to personal property and real estate taxes.

Membership Financial 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 typically, 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 a financial criteria policy for accepting new members. Recommendations for this membership based on this policy are made by the AMP staff to the AMP board of trustees. 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 costs, could adversely affect our future earnings and liquidity.
- **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 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.
- **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.
- **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, 2010, approximately 94.3% 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 wholesale 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.** AMP could lose key member communities. This could cause uncertainty affecting, planning, costs and results of operations and could adversely affect AMP's ability to recover costs, maintain adequate liquidity and address capital requirements.
- **Credit Ratings.** AMP strives to maintain high ratings from Moody's Investors Service, Standard & Poor's and Fitch Ratings, 3 nationally recognized rating services. AMP's outstanding ratings are:

  AMP Issuer or Counterparty Rating

Moody's	A1
Fitch	A

  AMP Electricity Prepay Bonds

Moody's	A2
Fitch	A
S&P	BBB

  Combined Hydroelectric Project Revenue Bonds

Moody's	A3
Fitch	A
S&P	A

  Gas Turbine Project

Moody's	VMIG1

  OMEGA JV2

Moody's	A1
Fitch	A-

  OMEGA JV5

Moody's	A1
Fitch	A
S&P	BBB+

  Prairie State Energy Campus Project Revenue Bonds

Moody's	A1
Fitch	A
S&P	A

  Meldahl Hydroelectric Project Revenue Bonds

Moody's	A3
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 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, 2010. 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 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.

<u>Strategy</u>

In 2002, AMP completed a strategic plan, including a 20-year power supply needs analysis. The plan, updated annually, identified the need for additional base load and intermediate generating resources to meet the increasing demands of its members, concluding that ownership of generating facilities would, in the long term, be less expensive than purchasing power on the open market. In addition, AMP's strategic plan concluded that AMP's Members would benefit from the pursuit of a diverse portfolio of power supply resources which would reduce project and regulatory risk.

During 2010, AMP continued to fund and develop several large capital projects that will help fulfill AMP's strategic plan. In keeping with AMP's vision of becoming Public Power's leader in wholesale energy supply, the organization is in the process of building power generating assets, and taking advantage of historically low interest rates and favorable government programs. Significant progress is under way in the Cannelton, Smithland, Willow Island and Meldahl hydro projects. In addition, there has been considerable advancement on the Prairie State Energy Campus project, of which AMP owns a significant share.

<u>AMP Projects in Service</u>

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. $600,000 in scheduled principal payments were made in March 2010. At December 31, 2010, $11,285,000 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, 2010, the outstanding debt on these units was $2,635,000 at an interest rate of 3.00%. The remaining four units are installed and operating under capacity contracts with AMP Members. At December 31, 2010, $2,050,000 of tax-exempt bond anticipation notes was outstanding on this project at an interest rate of 2.00%.

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.

Ohio Municipal Electric Generation Agency ("OMEGA") Joint Ventures

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.

OMEGA JV1
The project 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 in April 1992. OMEGA JV1 has no debt.

OMEGA JV2
The project 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, 2010, $33,445,000 of the bonds were outstanding. On January 3, 2011, AMP redeemed all of the $31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding principal of the OMEGA JV2 indebtedness was reduced to zero.

OMEGA JV4
The project 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
The project was organized by 42 subdivisions of the State of Ohio on April 20, 1993. Its purpose was to undertake the Belleville Hydroelectric Project. OMEGA JV5 constructed and owns and operates this project. The operations consist of:

- The Belleville hydroelectric generating plant and associated transmission facilities
- Backup generation facilities, including contracts for the output thereof; and
- Power purchased on behalf of OMEGA JV5 participants.
- The Belleville Hydroelectric Facilities consists of a run-of-the-river hydroelectric plant designed for a capacity of 42 megawatts and approximately 26.5 miles of 138-kilovolt transmission facilities. The plant is located in West Virginia, on the Ohio River, at the Belleville Locks and Dam.

The project was constructed with proceeds from the issuance of beneficial interest certificates ("BIC's"). These certificates evidence the obligation of the members of OMEGA JV5 to pay for the cost of the Hydroelectric Project from revenues of their electric systems. 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, 2010, the principal outstanding on the 2004 Refunding BIC's was $91,015,000. The debt is non-recourse to AMP.

OMEGA JV6
The project 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, $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, 2010, the outstanding debt was $4,926,000. The debt is non-recourse to AMP.

Municipal Energy Services Agency ("MESA")

The project 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.

<u>AMP Projects under Development</u>

Combined Hydroelectric Projects
Cannelton, Smithland and Willow Island are run-of-the-river hydroelectric generating facilities on existing United States Army Corp of Engineers dams on the Ohio River, and include related equipment and associated transmission facilities. When all of the projects enter commercial operation, they will have a generating capacity of approximately 208 MW. AMP has received all of the Army Corp of Engineers approvals and permits required to commence construction of, and currently hold the Federal Energy Regulatory Commission ("FERC") licenses necessary to operate all the projects.

Meldahl Hydroelectric Project
The Meldahl project consists of a run-of-the-river hydroelectric generating facility to be constructed on the Captain Anthony Meldahl Locks and Dam, an existing dam on the Ohio River, approximately 36 miles upstream from Cincinnati, OH. Meldahl will utilize three 35MW bulb-type turbines, which will divert water from the existing dam, to generate electricity, and is projected to have a net electric generating capacity of 105 MW.

The FERC license for Meldahl is held by the City of Hamilton, OH. AMP and Hamilton ultimately determined that it was in both parties' interests to diversify and expand their respective generation assets. As a result, Hamilton and AMP have agreed to jointly construct and operate the Meldahl project. Additionally, AMP agreed to finance the construction of the Project and to sell Hamilton a 51.4% of the Meldahl project once operational. AMP expects the project to be commercially available in 2014.

Prairie State Energy Campus
The project consists of a super critical, coal-fired, mine mouth generating facility, located in Washington, St. Clair and Randolph counties in southwest Illinois. Intended to have a minimum electric generating capacity of approximately 1,582 MW, the plant is situated adjacent to underground

coal reserves, expected to supply all the fuel needs for the plant for 30 years. The design of the plant incorporates state-of-the-art emissions control technology.

AMP owns 23.26% ownership interest in the project and entitles AMP to a proportionate share in the generating capacity as well as coal reserves and mining facility. The first of two generating units is expected to be commercially available December 6, 2011, with the second on August 1, 2012.

Fremont Energy Center
In August 2010, the 81 AMPGS participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant ("NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended.

Since then, AMP entered into and executed a definitive asset purchase agreement with FirstEnergy Corp. ("FE") regarding the Fremont Energy Center; a 707 MW natural gas fired combined cycle generation plant currently under construction by FE and located predominantly in the City of Fremont, Ohio. Construction on the Fremont Energy Center is largely complete and the plant is expected to be commercially available by year end 2011.

Finance and Capital Markets
In 2010, AMP once again increased its access to long term capital markets on favorable terms and expanded its liquidity facilities.

AMP expanded its revolving credit loan facility from $550 million to $750 million in 2010. The revolving credit loan facility expires on September 24, 2012. At December 31, 2010, AMP had $207,500,000 outstanding under the Facility and the effective interest rate was 1.6125%. The commercial paper authorized par amount remained stable at $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. No commercial paper was outstanding at December 31, 2010.

During 2010, AMP issued $2,364,090,000 of term debt to finance the construction of generating assets. AMP is an innovator in financial markets, and took advantage of historically low interest rates and federal programs such as Build America Bonds ("BABs") and Clean Renewable Energy Bonds ("CREBs") to minimize the overall cost of financing its long term generation projects. Over the past few years, AMP has been a leader in the Public Power industry in issuing government subsidized debt. Of the total term debt, AMP issued $2,025,030,000 of BABs that qualify for a 35% federal subsidy of interest and $136,000,000 of CREBs that qualify for a federal subsidy of interest equal to 70% of the applicable credit rate.

In September 2010, AMP issued $300,000,000 Prairie State Energy Campus Series 2010A Project Revenue bonds. This bond provided additional funds for capital expenditures, and funded the capitalized interest and cost of issuance expenditures of these bonds. These bonds have an interest rate of 5.939% and a maturity in 2047. In January 2011, AMP received its first BABs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of $2,355,803. The all in true interest rate after the 35% federal subsidy was 3.916%.

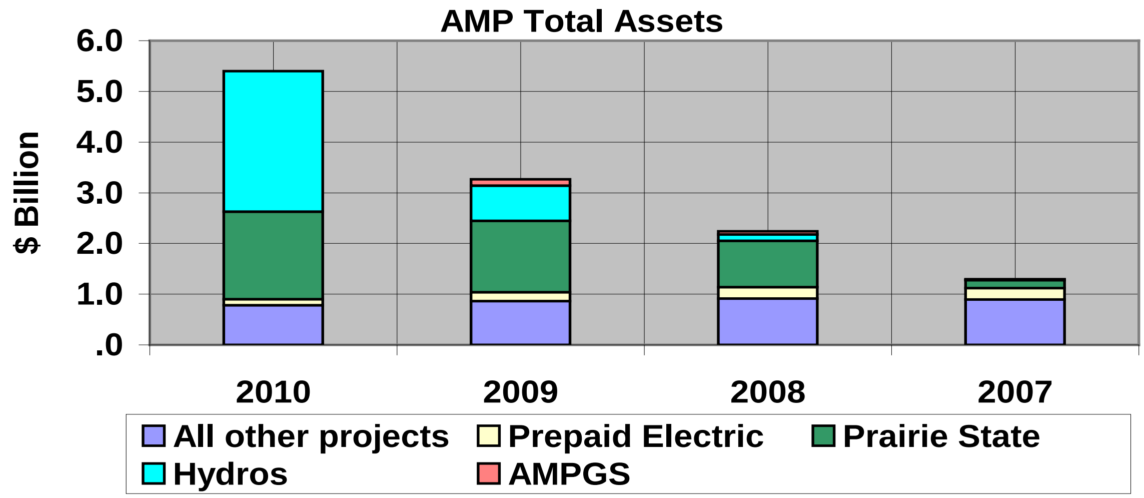
In December 2010, AMP issued $1,378,990,000 Hydroelectric Projects Revenue bonds in three series: $152,995,000 in federally taxable Series 2010A bonds, $1,109,995,000 in federally taxable Series 2010B BABs, and $116,000,000 of Series 2010C CREBs. These bonds provided additional funds for capital expenditures, and funded the capitalized interest and cost of issuance expenditures of these bonds. These bonds have an interest rate that range from 4.657% to 8.084% with maturities that range to 2016 to 2050. In February 2011, AMP received its first BABs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of $4,668,387. The all in true interest rate after the federal subsidy for the 2010B issue is 5.26%. Also in February 2011, AMP received its first CREBs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of $706,440. The all in true interest rate after the federal subsidy for the 2010C issue is 3.19%

Also, in December 2010, AMP issued $685,100,000 Meldahl Hydroelectric Projects Revenue bonds in five Series: $45,495,000 in federally taxable Series 2010A bonds, $260,000,000 in federally taxable Series 2010B BABs, $20,000,000 of Series 2010C CREBs, $4,570,000 in tax-exempt Series 2010D bonds and $355,035,000 in federally taxable variable rate Series 2010E BABs. These bonds provided funds for capital expenditures, and funded the capitalized interest and cost of issuance expenditures of these bonds. These bonds have an interest rate that range from 4.442% to 7.499% with maturities that range to 2016 to 2050. In February 2011, AMP received its first BABs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of $1,285,696 for Series 2010B. The all in true interest rate for Series 2010B bonds after the federal subsidy is 4.92%. Series 2010E subsidy of $787,122 was received in April of 2011. The all in true interest rate after federal subsidy for the 2010E issue is 4.16%. Also, in February 2011, AMP received its first CREBs subsidy payments from the U.S. Department of the Treasury for this issue, in the amount of $142,800.

Financial Results

Combined Balance Sheets

In 2010, AMP's balance sheet grew to almost $5.4 billion in 2010, an increase of $2.3 billion or 75% from 2009. These increases were driven by construction expenditures and funds raised for AMP's Prairie State, Meldahl and Combined Hydro generation projects. In 2010, construction work in process increased by $694.3 million and trust assets that will be used to fund future construction and construction funding expenses for these projects grew $1.4 billion. The transformation of AMP's balance sheet can be seen below:



Combined Balance Sheets
AMP Total Assets

Assets	2010	2009	Change
Utility Plant, Net	$ 185,278,600	$ 205,328,414	$ (20,049,814)
Non-utility Property and Equipment, net	16,137,688	10,803,075	5,334,613
Construction Work-in-Progress	1,613,182,253	918,922,914	694,259,339
Plant held for future use	34,881,075	113,310,685	(78,429,610)
Coal Reserves	26,612,000	26,612,000	-
Trustee Funds and Other Assets	2,700,798,266	1,311,841,232	1,388,957,034
Current Assets	822,753,537	506,733,720	316,019,817
Total Assets	$ 5,399,643,419	$ 3,093,552,040	$ 2,306,091,379

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

Utility plant assets of $185,278,600 decreased by $20,049,814 compared to 2009 due primarily to depreciation expense. 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 $16,137,388 increased $5,334,613 mainly due to enhancements in AMP's disaster recovery facilities in IT for $3,806,736 and the purchase of land of the Schrock road campus for $434,492.

Construction work-in-progress (CWIP) increased by $694,259,339 due primarily to AMP's share of the Prairie State Project construction expenses and CWIP expenditures for the Cannelton, Smithland Willow Island and Meldahl hydroelectric power plant projects.

Plant held for future use represents AMP's investment in AMPGS. AMP has classified $34,881,075 of costs as plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site.

Coal Reserves of $26,612,000 represent AMP's share of the coal reserves for the Prairie State Project as of December 31, 2010, and are unchanged vs. the prior year.

Trustee Funds & Other Assets (Long Term)

	2010	2009	Change
Trustee Funds	$ 2,397,829,939	$ 1,060,938,762	1,336,891,177
Intangible & Other Assets	51,780,817	36,486,702	15,294,115
Investments	-	4,793,061	(4,793,061)
Notes Receivable - Long Term	3,075,000	3,075,000	-
Regulatory Assets	151,951,445	39,064,994	112,886,451
Prepaid Power Purchases	57,975,966	115,520,182	(57,544,216)
Long Term Financing Receivable - Members	37,425,836	42,642,798	(5,216,962)
Prepaid Pension Costs	759,263	9,319,733	(8,560,470)
Trustee Funds & Other Assets	$ 2,700,798,266	$ 1,311,841,232	$ 1,388,957,034

Trustee funds and other assets increased by $1,388,957,034 to $2,700,798,266 due primarily to the deposit of new Prairie State, Hydro and Meldahl revenue bond debt proceeds in trust accounts. Trustee funds are discussed in more detail in Note 10 of the Combined Financial Statements. Other components of the increase include:

Intangible and other assets increased $15,294,115 to $51,780,817 as the costs of issuance from the Prairie State, Hydro and Meldahl bond issues were capitalized.

Regulatory Assets increased $112,886,451 to $151,951,445 primarily as a result of $93,526,852 of costs previously incurred related to the AMPGS project were determined to be impaired and classified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract.

Prepaid Pension Costs decreased $8,560,470 due mainly to an actuarial loss of $10,401,659, offset by a curtailment gain of $1,621,189. These large actuarial changes are due to the fact AMP is in the process of settling the pension plan due to the shutdown of the Gorsuch project.

Investments decreased $4,793,061. This amount represented the investments held in trust for Gorsuch debt that was repaid in 2010. All investments were liquidated in 2010 to pay debt obligations on the loan.

Notes Receivable–Long-Term this amount represents a security as part of the proceeds of the sale of its former headquarters in 2009. As such, it has remained consistent from prior year

These increases were offset by the following reductions as their resources were consumed in 2010. Prepaid power decreased by $57,544,216 to $57,975,966, and Long-term financing receivables from members decreased by $5,216,962 to $37,425,836 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.

Current Assets

	2010	2009	Change
Cash & Equivalents	$ 43,073,683	$ 48,619,304	$ (5,545,621)
Cash & Equivalents-Restricted	36,722,396	24,067,003	12,655,393
Investments	15,894,225	21,952,692	(6,058,467)
Trustee Funds	477,312,863	181,195,784	296,117,079
Collateral Postings	44,076,604	20,175,106	23,901,498
Accounts Receivable	71,369,594	76,590,797	(5,221,203)
Interest Receivable	22,873,586	6,577,868	16,295,718
Financing Receivables - Members	27,871,103	31,256,326	(3,385,223)
Inventories & Emission Allowances	2,549,305	20,679,923	(18,130,618)
Regulatory Assets - Current	20,342,526	15,616,852	4,725,674
Prepaid Power Purchase Asset	57,681,076	57,681,076	-
Prepaid Expenses & Other Assets	2,986,576	2,320,989	665,587
Total Current Assets	$ 822,753,537	$ 506,733,720	$ 316,019,817

Current assets increased by $316,109,817 to $822,753,537 due to increases in trustee funds of $296,117,079 and in interest receivables of $16,295,718. These increases are due to the increase in proceeds of term debt issued in 2010 and the corresponding interest earned. Additionally, the following fluctuations occurred:

> **Cash & Cash Equivalents – Restricted** increased by $12,655,393 to $36,722,396 primarily due to funds deposited to collateralize workers compensation and liability insurance.
>
> **Investments** decreased $6,058,467 to $15,894,225 as less cash was invested in CD's with maturities over 90 days, from the prior year.
>
> **Collateral Postings** increased $23,901,498 to $44,076,604 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.
>
> **Interest receivable** increased by $16,295,718 from prior year, primarily due to the interest earned on the increase in trustee funds due to the deposit of bond debt proceeds in trust accounts.
>
> **Inventories and Emission Allowances** decreased by $18,130,618 to $2,549,305 due to impairment recognized on the emissions allowance of $10,795,280 as well as decreased coal stocks, both due to the closure of the Gorsuch project.

Combined Condensed Balance Sheet
Equities and Liabilities

	2010	2009	Change
Member and Patron Equities	$ 100,735,049	$ 99,597,959	$ 1,137,090
Long Term Debt	4,913,919,723	2,641,758,857	2,272,160,866
Current Liabilities	327,482,020	287,484,072	39,997,948
Noncurrent Liabilities	57,506,627	64,711,152	(7,204,525)
Total Liabilities	$ 5,298,908,370	$ 2,993,954,081	$ 2,304,954,289
Total Liabilities and Equity	$ 5,399,643,419	$ 3,093,552,040	$ 2,306,091,379

Total liabilities and equities increased $2,306,091,379 to $5,399,643,419.

Equities. Total member and patron equities increased by $1,137,090 to $100,735,049 in 2010. This was due to AMP's current period earnings of $3,363,903, the JVs' current period loss of $2,057,208, and capital contributions from new members of $2,746, offset by distributions to project participants of $172,351.

Long Term Debt

	2010	2009	Change
Long Term Portion of Term Debt	$ 4,690,121,723	$ 2,425,350,857	2,264,770,866
Long Term Debt on Behalf of Members	16,298,000	51,408,000	(35,110,000)
Revolving Credit Loan and CP Facility	207,500,000	165,000,000	42,500,000
Total Long Term Debt	$ 4,913,919,723	$ 2,641,758,857	$ 2,272,160,866

Long Term Portion of Term Debt. The long-term portion of term debt at December 31, 2010 was $4,913,919,723, an increase of $2,272,160,866. Term debt is discussed in more detail in Note 9 of AMP's Combined Financial Statements, but increased mainly due to the issue of:

- Prairie State Energy Campus Project Revenue Bonds, Series 2010A totaling $300,000,000
- AMP Hydro Project Revenue Bonds, Series 2010A, Series 2010B, Series 2010C totaling $1,378,990,000
- AMP Meldahl Hydro Project Revenue Bonds, Series 2010A, Series 2010B, Series 2010C, Series 2010D and 2010E totaling $685,100,000

Term debt on behalf of members. The long term portion of Term Debt on behalf of members of $16,298,000 as of December 31, 2010 decreased $35,110,000 vs. prior year levels as portions of the term debt on behalf of members became current. This decrease corresponds with an increase in current term debt on behalf of members.

Line of credit borrowings of $207,500,000 at December 31, 2010 increased $42,500,000 compared to 2009 due to increased borrowing, mainly in preparation of the JV2 Bond buyback that occurred January 3, 2011.

Current Liabilities

	2010	2009	Change
Accounts payable	$ 104,791,802	$ 102,151,238	$ 2,640,564
Accrued salary and related benefits	1,733,531	2,324,983	(591,452)
Accrued pension and postretirement benefits	644,000	699,000	(55,000)
Accrued interest	58,546,142	34,326,058	24,220,084
Term debt - current	90,412,962	98,243,491	(7,830,529)
Term debt on behalf of members - current	58,447,000	34,913,000	23,534,000
Regulatory liability - current	1,542,728	4,411,409	(2,868,681)
Other liabilities	11,363,855	10,414,893	948,962
Total current liabilities	$ 327,482,020	$ 287,484,072	$ 39,997,948

Current Liabilities increased by $39,997,948 to $327,482,020 due primarily to:

Accounts payable levels increased by $2,640,564 to $104,791,802 due to increased construction activity.

Accrued interest increased $24,220,084 to $58,546,142 due to higher amounts of debt outstanding from term debt issues and higher line of credit borrowing.

The current portion of term debt decreased by $7,830,529 to $90,412,962 as a result of decreases in the scheduled principal payments on AMP term debt that is due within one year.

Term debt on behalf of members – current increased $23,534,000 to $58,447,000 as a result of more scheduled payments that are due within one year.

Regulatory liabilities decreased $2,868,681 to $1,542,728, as AMP funded projects with funds collected from members.

Other liabilities increased $948,962 to $11,363,855 due to increases in accrued Cost of Issuance as well as increases in swap mark-to-market liabilities**.**

Other non-current liabilities

		2010		2009		Change
Accrued pension and postretirement benefits	$	5,617,149	$	5,421,045	$	196,104
Deferred gain on sale of building		1,276,789		1,276,789		-
Asset retirement obligations		12,350,236		9,734,369		2,615,867
Other long-term liabilities		1,534,580		1,438,827		95,753
Regulatory liability		36,727,873		46,840,122		(10,112,249)
Total other non-current liabilities	$	57,506,627	$	64,711,152	$	(7,204,525)

Other non-current liabilities of $57,506,627 decreased by $7,204,525 vs. 2009.

Asset retirement obligations increased $2,615,867 to $12,350,236 due to a revised estimate of Prairie State Asset Retirement Obligation due mainly to a revised geological survey of the mine site.

Regulatory liabilities decreased $10,112,249 to $36,727,873, mainly due to the acceleration of deferred liability amortization on building acquisition costs for $6,766,631, due to the Gorsuch plant shut down. The remainder of the decrease was because regulatory liabilities were used to supplement member billings for energy that replaced Lehman power purchases and capital expenditures.

Combined Statements of Revenues and Expenses

		2010		2009		Change
Total Revenue	$	816,258,191	$	778,124,304	$	38,133,887
Total Operating Expense		815,859,507		776,622,489		39,237,018
Operating Margin	$	398,684	$	1,501,815	$	(1,103,131)
Interest income		304,826		760,951		(456,125)
Other income, net		603,185		296,228		306,957
Nonoperating revenues and expenses, net	$	908,011	$	1,057,179	$	(149,168)
Net Margin	$	1,306,695	$	2,558,994	$	(1,252,299)

Total revenue of $816,258,191 increased by $38,133,887 from 2009. This was primarily to increases of $30,091,639 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 increased $1,840,359. This was a result of additional sales of power to third parties. Program revenue increased $6,201,889 due to new programs such as the Renewable Energy Credit program, EcoSmart choice and carbon management.

Operating expenses of $815,859,507 increased $39,237,018 due to increases in purchased power expense of $21,953,098, increased production expense of $6,296,640, increased fuel expense, increased depreciation of $7,302,292, and increased administrative and general expenses of $3,557,109. All of these increases are due to higher revenue in the current year. These changes were partially offset by a decrease in interest expense of $5,290,652.

Total non-operating revenues and expenses decreased by $149,168 due to a $456,125 reduction in interest income and offset by a $306,957 increase in other income due mainly to increased Schrock Road facility rental income.

Combined net margin The Combined Statements of Revenues and Expenses reflect a net margin of $1,306,695 for 2010, a decrease of $1,252,299 from prior year. This is primarily due to deterioration of JV5's net margin, which decreased $2,957,980 due to lower levels of utilization, offset by higher AMP net margins of $1,257,622.

Combined Statements of Cash Flows

	2010	2009	Change
Net cash provided from operating activities	$ 55,809,190	$ 1,102,437	$ 54,706,753
Net cash used in investing activities	(2,339,069,670)	(1,150,700,844)	(1,188,368,826)
Net cash provided by financing actvities	2,277,714,859	1,052,681,860	1,225,032,999
Net change in cash and cash equivalents	$ (5,545,621)	$ (96,916,547)	$ 91,370,926
Cash and cash equivalent, beginning of year	$ 48,619,304	$ 145,535,851	$ (96,916,547)
Cash and cash equivalents, end of year	$ 43,073,683	$ 48,619,304	$ (5,545,621)

Total cash and cash equivalents decreased $5,545,621 in 2010 to $43,073,683.

Operating activities generated $55,809,190 of cash and cash equivalents in 2010, an increase of $54,706,753 from prior year as cash was generated by collections and reductions of accounts receivable of $24,579,880 receipt of collateral deposits of $19,800,000 and use of inventory of $10,218,545.

Investing activities consumed $2,339,069,670 of cash and cash equivalents in 2010, $1,188,368,826 more than 2009 levels. Purchases of investments consumed $1,036,247,176 as bond proceeds were deposited to trust accounts that will fund construction, cost of issuance and debt service expenditures for Prairie State, Meldahl and the Hydro projects. Construction work in progress consumed $698,427,346, an increase of $151,968,265 from prior year which represents the amount funded for capital projects.

Financing Activities. Net cash flow provided by financing activities of $2,277,714,859 in 2010 increased by $1,225,032,999 when compared to 2009. This change was principally due to:

- The issuance of new term debt in 2010 and a reduction in scheduled principal payments on term debt. The combined impact for 2010 is an increase in cash of $1,144,643,831 from prior year.

- Net borrowings on the revolving credit line and commercial paper facility decreased $83,204,933.

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 2010 Combined Financial Statements.

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