Fitch Ratings-Austin-19 January 2018: Fitch Ratings has assigned an 'A-' rating to the approximately $400 million in pollution control bonds issued by the Burke County Development Authority, remarketing series 2017 C, D, E and F, on behalf of Oglethorpe Power Corporation (OPC). Proceeds of the 2017 bonds were used to refund bonds issued by the Burke County Development Authority in 2008. The bonds are expected to price during the week of Jan. 22, 2018.

In addition, Fitch has the following ratings:

--$581.0 million pollution control bonds issued by the Development Authorities of Appling, Burke, Heard and Monroe Counties at 'A-';
--$3.05 billion first mortgage bonds issued by OPC at 'A-';
--$1 billion commercial paper (CP) program issued by OPC at 'F2'.

The Long-Term ratings have been removed from Rating Watch Negative. The Outlook for the Long-Term ratings is Stable.

SECURITY

Each series of the 2017 bonds are secured by revenues pledged pursuant to a loan agreement between OPC and the Burke County Development Authority. OPC's obligation to make payments under the loan agreements is secured by a first mortgage lien on substantially all of OPC's owned tangible and certain intangible assets and on parity with OPC's first mortgage bonds.

The CP notes are unsecured obligations of OPC that are subordinate to the outstanding pollution control revenue bonds and first mortgage bonds.

KEY RATING DRIVERS

LARGE REGIONAL WHOLESALE PROVIDER: OPC provides wholesale power supply to 38 members who collectively serve 1.9 million customer meters and 4.1 million people. Power is supplied pursuant to joint and several, take-or-pay wholesale power contracts that extend to Dec. 31, 2050, beyond the life of all outstanding debt. The contracts are not all-requirements but allocate OPC's generation portfolio among the members on a proportional basis. Supplemental power supply is arranged by the members.

NEAR-TERM STABLE OUTLOOK: The removal from Rating Watch and Stable Outlook reflects greater clarity related to the Vogtle expansion project and its effect on OPC's financial profile. Full payment of the settlement agreement with Toshiba (the parent guarantor of Westinghouse, the former contractor), the appointment of Bechtel as the new project contractor and the decision by the Georgia Public Service Commission to permit completion of the project should limit downward rating pressure over the two-year outlook period.

VOGTLE NUCLEAR CONSTRUCTION COST RISK: Ongoing construction cost risk will persist at Vogtle Units 3&4 through the revised completion dates in 2021 and 2022. OPC's revised total cost estimate for its 30% (660 MW) share of Vogtle Units 3&4 is $7.0 billion (above the original
$4.2 billion estimate), including financing costs, contingency reserves and net of the Toshiba settlement funds.

COMPETITIVE WHOLESALE RATES; UPWARD TRAJECTORY: OPC’s wholesale rates are competitive with other regional providers, but will increase significantly in 2021 and 2022 when the full costs of Vogtle Units 3&4 begin to be included in rates. Project costs, including financing, are largely being capitalized by OPC at this time and are not currently included in rates. Although similar rate movement is expected at the project's other participants - Georgia Power Company and MEAG Power - competitiveness could become strained.

HIGH LEVERAGE: Nuclear construction has resulted in high leverage, which Fitch believes reduces OPC's financial flexibility. Total debt is expected to grow to approximately $11 billion by fiscal 2022, resulting in increasing leverage until sizable rate increases assumed to occur in 2022 and 2023 reduce debt/FADS to around 11x, still well-above the 7.4x median for ’A-’ rated issuers.

ADEQUATE CREDIT QUALITY AND LIQUIDITY: The ‘F2’ on the CP note program reflects OPC’s long-term credit rating of 'A-' and adequate internal liquidity sources that provide liquid resources of 138% of the maximum potential liquidity requirement as of Dec. 31, 2017.

RATING SENSITIVITIES

PROGRESS OF NUCLEAR CONSTRUCTION: A re-emergence of construction delays or cost increases at Vogtle not already factored in the Oglethorpe Power Corporation's financial plan could result in negative rating action.

FAILURE TO MANAGE LEVERAGE: OPC's inability to manage leverage ratios to levels consistent with the current rating by implementing sizable and timely rate increases to support funds available for debt service, would likely result in downward rating action.

CREDIT PROFILE

OPC provides wholesale electric service to 38 member cooperatives located throughout Georgia. Collectively the OPC members serve a vast region covering approximately 38,000 square miles (65% of the state's land area) and encompassing 151 of the state's 159 counties. The member service territory exhibits considerable size, strength, breadth and diversity, which Fitch views very favorably. Average load growth in the member service area has averaged 1.4% annually over the last three years.

VOGTLE NUCLEAR PROJECT CONSTRUCTION COST RISK

Construction that began in earnest in 2012 is proceeding on new nuclear units 3&4 at the Vogtle Project. OPC is participating in the Vogtle nuclear expansion project with current co-owners GPC (A/Watch Negative; 45.7% ownership), the Municipal Electric Authority of Georgia (A/Watch Negative; 22.7%) and the city of Dalton Utilities (1.6%). OPC’s 30% share will provide OPC with 660 MW of additional capacity when completed. Work at the Vogtle site has been subject to extensive delays and cost overruns.

Bechtel took over in late 2017 as the general contractor on a time and materials contract basis, following the bankruptcy filing of the Westinghouse Electric Company, the prior provider of a fixed-price construction contract. GPC, along with Southern Nuclear Operation Company, is acting as the construction manager. Westinghouse Services continues to provide transitional support and design-related assistance on the AP1000 technology.
Toshiba began making payments pursuant to settlement agreement in October 2017, but in December 2017, Toshiba paid in full the remaining amounts due to the co-owners. OPC received $1.1 billion in total from the settlement. Approximately $554 million of the payment was used to pay down CP notes and the remaining amount was invested until needed to fund ongoing construction needs.

GPC filed a recommendation with the GPSC to continue with construction and a request to approve the recovery of their costs based on the new, larger estimate and extended timeline composed by the co-owners following the Westinghouse bankruptcy. The GPSC announced that the revised costs are reasonable in Dec. 2017 and accepted the recommendation to move forward with construction.

SIZEABLE CONSTRUCTION COSTS OVER NEXT FIVE YEARS

OPC's capital-expansion plan is extensive, even. The current five-year plan is cumulatively sized at $4.4 billion for period 2018-2022 and will continue to be dominated by Vogtle-related expenditures ($3.0 billion). The remaining expenditures include additions and replacements to the existing fleet ($619 million) as well environmental projects at the coal-fired Wansley and Scherer units ($226 million). Although both Wansley and Scherer are compliant with most prevailing regulations, expenditures related to coal ash disposal and water treatment will be necessary. Aside from the new Vogtle units, no additional generating units or capacity is planned.

HEALTHY FINANCIAL MARGINS AND LIQUIDITY

Financial performance at OPC improved in fiscal 2016 as a result of increased sales of energy to members, as scheduled. Fitch calculated debt service coverage increased to 1.75x from 1.44x. Debt service payments remained level around $402 million. The strong margins and cash flow are the result of OPC's 1.14x MFI target being used to set rates during Vogtle 3&4 construction. Initial but unaudited indications for year-end fiscal 2017 are Fitch calculated debt service coverage of around 1.7x.

HIGH LEVERAGE

OPC's debt portfolio increased substantially after nuclear construction began in earnest in 2012. Debt outstanding at the end of 2017 is approximately $8.3 billion, up from $5.6 billion at the end of 2012. The increase is primarily the result of OPC's $3.9 billion investment in Vogtle 3&4 as of Nov. 2016, including financing costs. However, leverage as measured by Fitch's debt/funds available for debt service (FADS) is elevated but has remained relatively stable over the past five years. The leverage ratio decreased in fiscal 2016 to 11.3x from 11.9x in 2012.

Leverage is forecast to increase through the completion of Vogtle to a maximum of between 12x to 13x, at which time an increase in rates to recover Vogtle costs will increase FADS and Fitch's leverage ratio is projected to decline back down to around 11x but remain high in comparison to other utilities.

DIVERSE GENERATION; DEMAND FOR NEW RESOURCES

OPC has a large and well diversified generation portfolio. The fleet of generating units totals 7,808 MW of summer planning reserve capacity, including 4,458 MW of nuclear, coal and combined-cycle natural gas generation, 2,622 of owned natural gas peaking capacity and 728 MW of combustion turbines (Smarr EMC assets; peaking capacity). Fuel diversity is strong with a breakdown in 2017 of energy sources of nuclear (38%), natural gas (42%) and coal (15%). OPC's share of the Rocky Mountain Pumped Storage Hydro Facility (817 MW) provides additional capacity and fuel diversity, but effectively supplies little power (the remaining 4% in 2017). The
planned capacity addition from Vogtle Units 3&4 will serve member load currently purchased from energy suppliers other than OPC; OPC’s members have committed to specific proportional amounts of the new units.

In 2016 and 2017, respectively, OPC supplied 64% and 61% of members’ retail energy requirements, which was an increase from 48% in 2015. The increase reflects the movement of the Smith and Hawk Road generating assets to serve member load, as planned, in Jan. 2016. This increased OPC’s total energy sales by 39% and replaced energy the members were purchasing from other suppliers. The members and OPC are targeting sales from OPC at approximately 68% of total member load once Vogtle 3&4 enters commercial operation.

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Applicable Criteria
Fitch Internal Liquidity Worksheet (pub. 13 Jun 2013)
https://www.fitchratings.com/site/re/710906
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)
https://www.fitchratings.com/site/re/898969
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
https://www.fitchratings.com/site/re/905637
U.S. Public Power Rating Criteria (pub. 18 May 2015)
https://www.fitchratings.com/site/re/864007

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