

FITCH PLACES OGLETHORPE POWER CORP., GA'S BONDS ON RATING WATCH NEGATIVE

Fitch Ratings-Austin-10 August 2018: Fitch Ratings has placed the 'A-' long-term ratings on the following bonds on Rating Watch Negative.

- \$858.2 million pollution control bonds issued by the Development Authorities of Appling, Burke, Heard and Monroe Counties;
- \$3.05 billion first mortgage bonds issued by Oglethorpe Power Corporation (OPC).

NEGATIVE WATCH REFLECTS UNEXPECTED COST INCREASE

Fitch's Negative Watch reflects credit concerns related to the unexpected announcement by GPC and Southern Nuclear that the cost of the Vogtle 3 & 4 nuclear project has increased by over \$2.0 billion (approximately \$1.5 billion increase in construction costs and assumed addition of \$800 million project-level contingency). The rapid timing of this cost escalation, as well as the magnitude, are particularly disappointing, given that the co-owners last budget was developed during summer 2017 and ostensibly reflected in-depth analysis and review. Fitch's decision to revise OPC's Outlook to Stable in January 2018 was based, in part, on Fitch's belief that the 2017 revised cost estimate was reliable.

The Negative Watch further reflects ongoing construction risk at the project and Fitch's skepticism about the resilience of the revised project estimate and the potential for continued budget and timing slippage. Construction is less than 50% complete, while the overall project, including engineering and procurement, is 67% complete.

COST INCREASES DRIVEN BY SUB-CONTRACTS AND TRANSITION COSTS

The cost increase reportedly results from a variety of issues, including elevated costs related to craft labor retention and project management, higher actual sub-contract costs for over 60 subcontractors (the 2017 budget relied on estimates), and higher than expected staffing needs and transition costs related to management responsibilities at both Bechtel and Southern Nuclear. The availability and retention of sufficient craft labor will remain a key challenge throughout construction. Certain costs are still estimates given the stage of construction and further cost escalation seems likely.

OPC COSTS UP APPROXIMATELY \$690M

The announcement of the project cost increase results in a preliminary estimate of roughly \$690 million in additional costs for OPC's 30% share of Vogtle 3&4 (approximately \$450 million increase in share of construction costs and assumed addition of \$240 million project-level contingency). OPC's most recent budget of \$7.0 billion included \$490 million of OPC level contingency funds, which can be used to absorb a portion of the cost increase. OPC anticipates that its project budget may increase from \$7.0 billion to a range of \$7.25 billion to \$7.5 billion, depending on the level of its own contingency. As of June 30, 2018, OPC had spent \$3.4 billion on the Vogtle expansion.

CO-OWNER VOTE TO CONTINUE CONSTRUCTION

Resolution of the Negative Watch will depend, in part, on the outcome of the co-owners vote expected in September on whether to continue construction of the project. Triggers in the revised

co-owners agreement require an affirmative vote by GPC, OPC and MEAG Power in order for construction to continue. The presentation of the revised budget to the co-owners by GPC is expected around the end of August. The current projected completion dates of November 2021 and November 2022 for Units 3&4, respectively, have not been extended with the revised budget announcement.

NEGATIVE RATING ACTION LIKELY

Fitch expects to address the Rating Watch in the next six months and will consider the decision whether to continue participation in the construction project and the resulting impact to rates, financing costs, financial margins and leverage. To the extent that we determine that the financial flexibility of OPC has diminished, Fitch expects to downgrade the ratings.

For more information on OPC, see the press release 'Fitch Rates Oglethorpe Power Corp., GA 'A-'; Negative Watch Removed; Outlook Stable' dated Jan. 18, 2018 available at 'www.fitchratings.com'.

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Applicable Criteria
Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
<https://www.fitchratings.com/site/re/10020113>
U.S. Public Power Rating Criteria (pub. 18 May 2015)
<https://www.fitchratings.com/site/re/864007>

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