

Rating Action: Moody's changes Oglethorpe Power's outlook to stable from negative; affirms existing ratings

08 Oct 2018

Approximately \$4.2 billion of debt securities affected

New York, October 08, 2018 -- Moody's Investors Service changed the rating outlook for Oglethorpe Power Corporation (OPC) to stable from negative and concurrently affirmed OPC's ratings, including its senior secured first mortgage bonds and senior secured tax-exempt revenue bonds at Baa1, Issuer Rating at Baa2 and short-term rating for commercial paper at P-2.

Outlook Actions:

..Issuer: Oglethorpe Power Corporation

....Outlook, Changed To Stable From Negative

Affirmations:

..Issuer: Appling County Development Authority, GA

....Senior Secured Revenue Bonds, Affirmed Baa1

....Underlying Senior Secured Revenue Bonds, Affirmed Baa1

..Issuer: Burke County Development Authority, GA

....Senior Secured Revenue Bonds, Affirmed Baa1

....Underlying Senior Secured Revenue Bonds, Affirmed Baa1

..Issuer: Monroe County Development Authority, GA

....Senior Secured Revenue Bonds, Affirmed Baa1

....Underlying Senior Secured Revenue Bonds, Affirmed Baa1

..Issuer: Oglethorpe Power Corporation

.... Issuer Rating, Affirmed Baa2

....Senior Secured First Mortgage Bonds, Affirmed Baa1

....Underlying Senior Secured First Mortgage Bonds, Affirmed Baa1

....Senior Unsecured Commercial Paper, Affirmed P-2

RATINGS RATIONALE

"The rating actions primarily reflect the September 26, 2018 unanimous vote by co-owners of the Vogtle 3&4 nuclear construction project to proceed under the revised Joint Owners Agreement (JOA) and binding term sheets executed by all the parties involved," said Vice President-Senior Analyst, Kevin Rose. "OPC's budgeting for the project included about \$490 million of contingency to absorb the cooperative's share of construction cost increases announced in August and its revised \$7.5 billion budget approved on September 26, 2018 includes replenishing a portion of the contingency" Rose added. Although the complexity of the Vogtle project increases the prospects for additional construction delays and cost over-runs, the magnitude is not expected to further jeopardize OPC's credit quality, particularly when considering the terms of the revised JOA and term sheets which include several forms of mitigation and cost shifting should future construction project costs exceed the currently revised budget.

Under the revised JOA and term sheets, the co-owners will be responsible for their respective share of the \$2.3 billion cost increase outlined in the August 2018 revised budget, plus another \$800 million of additional construction cost increases above the revised budget. Should Vogtle 3&4 costs exceed the revised budget by \$800 million to \$1.6 billion, Georgia Power Company (GPC, Baa1 stable), a 45.7% current owner, will be responsible for 55.7% of the increase, with the remaining 44.3% of costs paid by the other co-owners according to their original ownership interests. If Vogtle 3&4 costs rise by another \$500 million to \$2.1 billion from \$1.6 billion, GPC is responsible for 65.7% of the increase, with the remaining owners being responsible for the remainder. Beyond this level of future potential cost increase, the co-owners have a one-time option to tender a portion of their ownership interest to GPC. Because of this arrangement, the revised JOA would not require an owner vote to continue construction should costs increase above the August 2018 \$2.3 billion budget cost increase. Moreover, GPC would have the sole control over the vote to cancel the project if GPC were asked to pay 100% of the excess costs for the other owners that exceed \$2.1 billion. Also GPC, at the co-owners' option, has agreed to purchase the co-owners federal production tax credits (PTC), a source of liquidity for OPC and the other co-owners, at varying purchase prices dependent on the actual cost to compete the project.

The rating action recognizes the existence of litigation between JEA, FL (JEA: Aa2 negative) and MEAG Power (MEAG) concerning the Project J PPA which in the extreme case, could have negative implications for OPC's investment in Vogtle 3&4. These risks, which we believe may take some time to resolve, are however partly mitigated at this juncture by the terms of the revised JOA and binding term sheets executed by all the parties involved, which among things, require GPC, to provide up to a \$250 million loan to MEAG (provided that in aggregate the purchase of PTCs and loans do not exceed \$300 million) should the pending litigation impact MEAG Power Project J's ability to access the capital markets.

OPC's new budget of \$7.5 billion represents a \$0.5 billion increase above its prior budget and includes its approximate 30% share of the August 2018 revised estimated \$1.5 billion capital cost increase, allowance for funds used during construction, and 30% of the \$800 million project-level contingency, as well as its own separate OPC contingency. OPC's strong liquidity continues to be a credit strength during this construction cycle, even as liquidity is being somewhat tested during the second half of 2018 owing to persisting delays in the cooperative's ability to make additional draws on \$3.057 billion of guaranteed loan funds that have been authorized by the Department of Energy (DOE) and remain available to OPC. The cooperative's last draw was in December 2016 and subsequent draws on the remaining \$1.3 billion of DOE loans are precluded, pending meeting additional pre-requisites established by the DOE in early 2017 following regulatory decisions by the GPSC. Additional DOE loan commitments of about \$1.6 billion for OPC are also subject to a pending final approval by the DOE which commitment was recently extended by the DOE to March 31, 2019, a credit positive. If the DOE loans remain available for future project investment, then Moody's would view that as credit positive owing to the likelihood for additional capital cost savings compared to the amounts budgeted.

Meanwhile, as OPC continues to fund its monthly share of the Vogtle project costs primarily with commercial paper (CP) under its \$1.0 billion CP program, its outstanding CP will continue to increase from the approximate \$686.8 million outstanding at September 27, 2018. Moody's incorporates a view that OPC will successfully follow through with its stated plans to consider issuing long term debt in the capital markets later this month and use the proceeds to repay a portion of its CP outstanding at that time. As of September 27, 2018, OPC's liquidity also benefits from about \$722 million of unrestricted cash and about \$663 million of unused capacity under its aggregate \$1.61 billion of bank credit facilities. Also, OPC has about \$746 million invested in the Rural Utilities Service (RUS) cushion of credit program. The \$746 million is currently earning 5% interest and the entire account balance, included earned interest, is restricted solely for repayment of obligations owed to the RUS/Federal Financing Bank.

Key underpinnings for the OPC credit profile still include the cooperative business model, especially the strong bond of contractual relationship with members and rate autonomy status. OPC has reasonably competitive wholesale rates, which stood at about 6.7 cents/kWh for first half of 2018. OPC has financially sound members, good diversity in its generation resource mix, and, to this point, strong member, state, regulatory and political support for the Vogtle new nuclear project has been evident. Also, OPC continues to work towards ways to monetize nuclear production tax credits (PTC). The likelihood for OPC to successfully benefit its credit profile by monetizing the PTCs is substantially increased as GPC now stands willing to purchase PTCs from the municipal and cooperative co-owners in the Vogtle project should the owners of the PTCs opt to sell those as they materialize under the latest revised JOA.

While the Vogtle construction has caused OPC's key credit metrics to be weak relative to many of its peers, the cooperative's current credit quality and outlook incorporates our view that the cooperative business model and

OPC's past history of adjusting rates at least partially balances this pressure point. Moody's believes that OPC will continue to carefully manage its liquidity and ultimately exercise its rate autonomy once the units begin operating and that metrics will then revert quickly back to stronger levels in support of the credit profile.

Rating Outlook

The stable outlook reflects the unanimous approval by the Vogtle project co-owners to proceed with construction despite the latest cost increases announced in August, thus signifying a continuation of the collective strong support for the project among all the co-owners. Especially important for OPC are the several forms of risk mitigation and cost shifting now available to offer protection should future construction project costs exceed the current revised budget. The stable outlook also incorporates the strong contractual ties that OPC has with its members and our prospective view that management and the board will ultimately exercise rate autonomy so that OPC's weak financial metrics will revert back to stronger levels in support of the credit profile once the project costs are fully incorporated into the wholesale power rates charged to its members.

What Could Change the Rating -- Up

An upgrade of ratings is unlikely as the Vogtle new nuclear construction project moves forward and the cooperative's metrics remain weak owing primarily to our adjustments for capitalized interest on significant Vogtle related debt financing. In the long term, credit metrics that would support an upgrade include a funds from operations to debt ratio closer to 6% and equity to capitalization exceeding 10%.

What Could Change the Rating - Down

OPC's ratings could be downgraded if there are further delays or cost increases on the project that materially stretch further the cooperative's budget. Ratings could also come under additional pressure if there is a decrease in the level of co-owner, member, state, regulatory, political, or public support for the project; or if OPC incurs a sustained deterioration of its liquidity or future rate increases necessary to strengthen its cash flow credit metrics and equity levels in the capital structure post construction project completion are unduly delayed.

Oglethorpe Power Corporation, headquartered in Tucker, Georgia, is a generation-only electric cooperative that provides wholesale power to its 38 member-owner distribution cooperatives located throughout Georgia.

The principal methodology used in these ratings was US Electric Generation & Transmission Cooperatives published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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