S&P Global
Ratings

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Summary:

Oglethorpe Power Corp., Georgia; CP; Joint Criteria; Rural Electric Coop

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Summary:

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Credit Profile		
Oglethorpe Pwr Corp ICR		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch

Rationale

S&P Global Ratings has lowered its issuer credit rating and senior secured debt ratings on Oglethorpe Power Corp. (OPC), Ga., to 'BBB+' from 'A-'. At the same time, S&P Global Ratings lowered to 'AA-/A-1' from 'AA/A-1' its ratings on three series of the utility's debt obligations that it rates using its joint support rating methodology to reflect the benefits of the bonds' bank credit support. The ratings were removed from CreditWatch, where they were placed with negative implications Aug. 14, 2018. The outlook is negative.

S&P Global Ratings also affirmed its 'A-2' rating on the utility's CP.

The downgrade reflects our view that the co-owners' plans to amend the Georgia Vogtle nuclear projects' joint ownership agreement will continue to expose Oglethorpe and its co-owners to potential material cost escalations as they proceed with the projects. It also removes the rights of the cooperative and municipal electric utility co-owners to cancel the project for cost overruns. However, if costs exceed the August 2018 budget by $2.1 billion, the agreement provides a mechanism for the municipal and cooperative utilities to cap their investments. Georgia Power Co. (GPC), the largest of the co-owners, retains the right to cancel the projects if completion costs exceed prescribed thresholds. Should it do so, the municipal co-owners could end up with stranded investments. The co-owners retain additional cancellation rights relating to schedule changes and the termination of construction-related contracts, if defined ownership shares agree. The negative outlook reflects the potential that any of these exposures could lead to a lower rating.

On Sept. 26, OPC and Southern Co., GPC's parent, issued separate 8-K filings describing the binding term sheet executed by the co-owners in preparation for their amending the joint ownership agreement. Some of the 8-Ks' significant points include the following:

- The Vogtle construction projects' utility co-owners have agreed to proceed with project construction.
- If the projects incur capital cost overruns of up to $800 million above the August 2018 budget, the co-owners agree to share in those additional costs in proportion to their ownership interests. However, GPC has agreed to shoulder 10% of its co-owners' shares of the next $800 million of capital cost overruns and 20% of the next $500 million of cost overruns, up to cost increases of $2.1 billion above the August budget. This cost shifting will not dilute the municipal and cooperative utilities' ownership interests.

- Except for GPC, the co-owners are abandoning their rights to cancel the projects due to rising costs. However, if the projects' estimated completion costs, net of financing costs, exceed August 2018's budget estimates by more than $2.1 billion, the municipal and cooperative utility co-owners can tender to GPC the obligation to complete the project, thereby capping their exposures to project costs. At that point, GPC has the right to complete or cancel the project. Depending on completion costs, this will likely dilute OPC's ownership interest in the project. GPC has the right to either complete or cancel the projects. The municipal and cooperative utilities' right to tender their incomplete portions of the project excludes recovering from GPC investment that predate the tender. GPC agrees to purchase at a discount prescribed amounts of its co-owners production tax credits (PTC). The discount is on a sliding scale and GPC will pay more for the PTCs as the projects' cost rise. The municipal and cooperative utilities are unable to monetize those credits through federal tax filings. The co-owners retain the right to pursue sales of the PTCs to other parties.

OPC forecasts debt service coverage of 1.20x-1.25x through 2023, the year following the current targets for both plants achieving commercial operation. We believe these coverage levels could decline by up to 10 basis points under some additional cost scenarios. We performed a stress analysis using the term sheet's maximum potential cost exposure before triggering GPC's option to cancel for costs projections that are more than $2.1 billion above the August 2018 budget. Based on the projects' recurrent and material budget adjustments, we used the maximum cost exposure to OPC reflecting its 30% interest in the plant. The budget numbers in the term sheet's cost-sharing matrix exclude interest during construction (IDC). We assume that OPC debt-finances project costs and added to potential debt balances amounts representing debt-financing for IDC.

Recurring cost overruns underscore the uncertain magnitude of OPC's exposure to Vogtle project costs. However, the municipal and cooperative utilities can cap their exposure if estimated completion costs exceed August's budget by $2.1 billion and GPC can cancel if the project reaches that threshold. Although the term sheet's matrix will allocate portions of cost overruns to GPC, we consider the extent of cost shifting as lacking the potential to materially offset the burdens of potentially substantial additional project costs and the added cost responsibility incurred so far.

In our opinion, GPC's project cancellation option could lead to OPC's plowing significant sums into the project before GPC reaches the threshold for exercising this option. As of June 30, 2018, OPC's total investment in the additional Vogtle units was approximately $3.4 billion. Based on the budget OPC's board approved on Sept. 26, the utility forecasts its investment rising to $7.5 billion, including financing costs, but without further cost overruns.

The projects' litany of budget adjustments raise questions about project stewardship. The owners' replacement of several successive project construction managers has not stemmed the tide of rising completion costs. In 2008, the owners contemplated a $14 billion budget. Current projections are in the range of $28 billion.

In addition to OPC's 30% interest in the two 1,100-megawatt (MW) Westinghouse AP 1000 pressurized water reactor nuclear units it is developing at the Vogtle site, its co-owners interests are GPC (45.7%), the Municipal Electric Authority of Georgia (22.7%), and the municipal utility serving the City of Dalton, Ga. (1.6%).

OPC reported $8.9 billion of debt as of June 30, 2018. The cooperative projects it can mitigate some of the debt needs attributable to additional project costs identified this past summer by applying its nearly $500 million contingency reserve. It also contemplates replenishing a portion of its contingency reserve. The owners continue to project in-service dates of November 2021 and 2022 for the units, five years beyond original estimates. We believe further delays will add to costs.

Oglethorpe owns or manages approximately 7,800 MW of generation capacity consisting of gas-fired power plants, a majority interest in a pumped storage hydroelectric facility, and interests in coal and nuclear facilities built and operated by subsidiaries of The Southern Co. All but four of its members have agreed to participate in the Vogtle construction projects that will add 660 MW to the portfolio.

Outlook

The negative outlook reflects our view that the nuclear project's progression exposes OPC to uncertain costs and contingencies, including project delays and cancellation. We believe cost overruns could add to debt and stress the utility's financial margins

Downside scenario

We will lower our ratings on the cooperative if debt service coverage metrics weaken as the utility adds debt or if costs and the construction schedule continue to meaningfully depart from estimates.

Upside scenario

We do not expect to raise the rating during our two-year outlook period, but could revise the outlook to stable if the costs OPC and its partners will bear in connection with the project become clearer and debt service coverage strengthens.

Ratings Detail (As Of September 28, 2018)		
Oglethorpe Pwr Corp 4(2) CP		
Short Term Rating	A-2	Affirmed
Oglethorpe Pwr Corp		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch
Oglethorpe Pwr Corp 1st mtg		
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Appling Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Appling Cnty Dev Auth poll cntl rev bnds		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch
Burke Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Burke Cnty Dev Auth		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA-/A-1	Downgraded, Removed from

Ratings Detail (As Of September 28, 2018) (cont.)		
		CreditWatch
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA-/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch
Heard Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Heard Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA-/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Monroe Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Monroe Cnty Dev Auth		
Long Term Rating	BBB+/Negative	Downgraded, Removed from CreditWatch
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA-/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA-/A-1	Downgraded, Removed from CreditWatch
Unenhanced Rating	BBB+(SPUR)/Negative	Downgraded, Removed from CreditWatch

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.