

RatingsDirect®

Summary:

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

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Credit Profile

Oglethorpe Pwr Corp 4(2) CP <i>Short Term Rating</i>	A-2	Affirmed
Oglethorpe Pwr Corp <i>Long Term Rating</i>	BBB+/Negative	Affirmed
Oglethorpe Pwr Corp ICR <i>Long Term Rating</i>	BBB+/Negative	Affirmed

Rationale

S&P Global Ratings affirmed the following ratings assigned to Oglethorpe Power Corp. (OPC), Ga., and its obligations:

- The 'BBB+' issuer credit rating and senior secured debt ratings, each with a negative outlook;
- The 'A-2' short-term rating on Oglethorpe's \$1 billion commercial paper program; and
- The 'AA-/A-1' ratings on three series of the utility's debt obligations that we rate using our joint support rating methodology to reflect the benefits of bank credit support.

The ratings reflect our opinion that Oglethorpe and its co-owners in the Vogtle nuclear project face the potential for material cost escalations as the project proceeds. The owners continue to project in-service dates of November 2021 and 2022 for the units, five years beyond original estimates. However, in a December 2019 filing, Georgia Public Service Commission staff questions the owners' assessment.

Oglethorpe has significantly eclipsed its 2008 budget estimate of \$4.2 billion, and now estimates costs of \$7.5 billion. Oglethorpe's figures include financing costs, Oglethorpe's 30% share of the \$800 million project-level contingency, and OPC's own contingency. As of Sept. 30, 2019, the co-owners tapped \$67 million of the project-level contingency.

Although the amended ownership agreement contains a matrix for allocating portions of cost overruns to Georgia Power Co. (GPC), which holds the largest interest in the project, we believe the scope of permissible cost shifting lacks the capacity to meaningfully shield Oglethorpe from potentially burdensome additional construction costs.

The amended ownership agreement stipulates that if cost projections exceed the co-owners' August 2018 capital budget by \$2.1 billion, net of financing costs, the projects' municipal and cooperative utilities can cap their investments by tendering to GPC the obligation to complete units 3 and 4. In that scenario, GPC has the right to complete or cancel the projects. If it completes the projects, GPC's post-tender completion costs will likely dilute OPC's ownership interest.

In addition to OPC's 30% interest in the two 1,100-megawatt (MW) Westinghouse AP 1000 pressurized water reactor nuclear units at Vogtle, 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%).

Additional factors underlying our ratings include the following:

- As of Sept. 30, 2019, OPC's total investment in Vogtle units 3 and 4 was approximately \$4.6 billion or only about 60% of its total project budget. The \$4.6 billion figure is net of \$1.1 billion received from Toshiba Corp. as a guarantee payment following the bankruptcy of its subsidiary, Westinghouse Electric Co. LLC, the former primary construction contractor.
- Although OPC forecasts debt service coverage (DSC) 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 that assume that OPC debt-finances project costs. Utility management's rate-setting actions could temper this exposure.
- We consider Oglethorpe's capital structure highly leveraged, with a 90% debt-to-capitalization ratio since 2012.
- We believe the utility's liquidity position is appropriate for the size of the cash needs of its substantial construction program.
- Energy Information Administration data show that the members' weighted average retail rates for all customer classes was 107% of the state average in 2018, which we believe provides financial flexibility. Yet, some members exhibit significant competitive disadvantages. Moreover, we believe that Vogtle costs will necessitate multi-year wholesale rate increases. Factors tempering the Vogtle projects' pressure on OPC's wholesale rates and its members' retail rates include the dilution of OPC's rates by members' purchases of about one-third of their power supply needs from companies other than Oglethorpe. Also, purchased power expenses are just one component of members' overall cost of service.
- OPC might preserve its relative competitiveness because most of the state's other electric utilities face similar cost pressures from participating in Vogtle.
- Oglethorpe's board can set rates without regulatory oversight. In addition, the cooperative uses adjustment mechanisms for recovering changes in production costs, which the utility passes through to members on a 30-day lagged basis. To meet its threshold 1.1x margins for interest requirement, the board can adjust rates at any time, if needed.
- In 2005, the utility's 38 members extended their wholesale power contracts by 25 years to Dec. 31, 2050, to better align members' financial obligations with the tenor of the utility's debt and the useful lives of its generation assets. We view these long-term contracts and members' joint and several, take-or-pay obligations as contributing to the recovery of project debt service.
- Through its members, Oglethorpe serves a broad customer base, with almost 1.9 million end-use retail customers.
- Residential customers contribute about 70% of OPC's members' energy sales revenues, which we believe limits the utility's exposure to revenue stream volatility because we think the residential customer class provides greater stability than other classes.
- We also view the revenue stream as secure because OPC earned at least 90% of its operating revenues from member sales during 2012-2015 and almost 100% in 2016-2018, reflecting an energy portfolio developed to serve only a portion of its members' energy requirements.

Oglethorpe reported \$9.6 billion of debt as of Sept. 30, 2019. The cooperative 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.

Oglethorpe benefits from a diverse fuel mix. Coal-fired generation represented 12% of electricity production in the 12 months ending Sept. 30, 2019, down from about 30% in 2013-2014. The declines relate to advantageous natural gas prices that favor gas-fired electricity production over coal-fired generation, and the addition of the Smith and Hawk Road gas-fired generation assets. Natural gas-fired generation accounted for 46% of generation in the 12 months ending Sept. 30, 2019, up from 25% in 2013. Nuclear represented 40%-47% of 2013-2019 generation.

The members have defined purchase obligations. Some participate in and take energy from all of the units in the Oglethorpe generation fleet. Others participate in a subset of the generation portfolio. Each of the members makes purchases from other suppliers to meet their additional energy and capacity needs that exceed their Oglethorpe project allocations.

The members' joint and several financial obligations apply to debt issued for each of the cooperative's generation resources, irrespective of participation in the resource, if the generation projects' construction approvals meet prescribed conditions. Financial responsibility extends to all members for resources built with the approval of 75% of the board, 75% of the membership base, and by members representing at least 75% of the utility's patronage capital.

If member defaults occur, Oglethorpe will allocate their defaults proportionally among all the generation resources that the defaulting members participate in. Nondefaulting participants in those generation resource are required to cover the default. If they cannot, nonparticipating members are obligated to contribute to curing the default proportionately if the approval preconditions cited above are present.

In our opinion, the Vogtle project co-owners retain several cancellation options that could lead to OPC plowing significant sums into the projects before owners exercise the option. However, we believe the risk of cancellation diminishes as construction advances. The amended ownership agreement removes the rights of the cooperative and municipal electric utility co-owners to cancel the projects for cost overruns; GPC retains cost-based cancellation rights. The municipal and cooperative co-owners retain additional cancellation rights relating to schedule changes and the termination of construction-related contracts, if defined ownership shares agree.

Outlook

The negative outlook reflects our view that the nuclear construction projects expose OPC to uncertain costs and contingencies. 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 DSC 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 ratings 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 DSC strengthens.

Ratings Detail (As Of January 31, 2020)		
Oglethorpe Pwr Corp 1st mtg		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Appling Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Appling Cnty Dev Auth poll cntl rev bnds		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
Burke Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Burke Cnty Dev Auth		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
Heard Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Heard Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Monroe Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Monroe Cnty Dev Auth		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed

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.

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