FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Oglethorpe Power Corp.'s Outlook to Positive; Affirms Ratings at 'BBB'

Thu 12 Oct, 2023 - 9:00 AM ET

Fitch Ratings - Austin - 12 Oct 2023: Fitch Ratings has revised the Rating Outlook of Oglethorpe Power Corporation (OPC) to Positive from Stable and affirmed OPC's Issuer Default Rating (IDR) at 'BBB'.

Fitch has also affirmed the following parity obligations of OPC at 'BBB':

--$612.5 million pollution control bonds issued by the Development Authorities of Appling, Burke, and Monroe Counties;

--$4.15 billion first mortgage bonds issued by OPC.

Fitch also affirmed the 'F2' rating on OPC's $1.2 billion CP program.

.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Oglethorpe Power Corporation (GA)	LT IDR Affirmed	BBB Rating Outlook Positive	BBB Rating Outlook Stable

Oglethorpe Power Corporation (GA) /Senior Secured Obligation/1 LT	LT	BBB Rating Outlook Positive	Affirmed	BBB Rating Outlook Stable
Oglethorpe Power Corporation (GA) /Self-Liquidity/1 ST	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

The Positive Outlook reflects successful commercial operation of Vogtle Unit 3, the near completion of Vogtle Unit 4 and the resulting improvement in leverage expected to occur in 2024 as the full costs of the units are incorporated into OPC's wholesale rates and collected from members.

Vogtle Unit 3 entered commercial operation on July 31, 2023 and operations have been consistent and reliable in the first two months of operation. Vogtle Unit 4 is scheduled to enter commercial operation in Q1 2024. Nuclear construction remains an asymmetric rating factor consideration that constrains the rating at this time, given the inherent complexity of nuclear start-up operations. Nevertheless, the Positive Outlook indicates that with commercial operation of the second unit expected early next year, this asymmetric consideration could be removed within the outlook period. Additionally, the decline in leverage below 11.5x in 2024, coupled with the demonstrated successful commercial operation of both nuclear units, could result in a rating upgrade.

The 'BBB' rating incorporates OPC's very strong revenue defensibility provided by its unconditional, wholesale power contracts and the strong credit quality of the largest member purchasers. OPC and its members are currently working to extend the term of the wholesale power contracts from the current date of 2050 to permit more flexibility to finance generation assets over a longer time horizon. Given growth in the region and the increasing value of capacity, OPC management expects that additional generation investments beyond Vogtle Units 3 and 4 and recent gas unit acquisitions are likely, although final decisions will depend on member approval.

SECURITY

The pollution control bonds are secured by loan payments from OPC. OPC's long-term debt and loan payments on the pollution control bonds are secured by a first mortgage lien on substantially all of OPC's owned tangible and certain intangible assets. 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

Revenue Defensibility - 'aa'

Unconditional, Project-Based Wholesale Power Contracts

OPC's very strong revenue defensibility assessment reflects the revenue consistency provided by unconditional, partial requirements wholesale power contracts with 38 member distribution cooperatives that expire in 2050. Contract terms allow for the ability to allocate costs among members, if needed, although terms require the distribution of costs to other participating members of each generation project first. The process to extend the final term of the contracts beyond 2050 is underway.

Revenue defensibility is further supported by the legal ability to raise wholesale electric rates on member sales. OPC's rate formula provides timely cost recovery as generation assets are purchased or enter commercial operation, including Vogtle Unit 3 that is now included in capacity payments made by participating members in that project. Vogtle Units 3 and 4 will increase OPC's average wholesale rate, but rates are expected to remain competitive in the state, given the common participation of many other utilities in the project, including Georgia Power Corporation (GPC). OPC's rate management programs and actions taken by individual members to buffer the rate impact should smooth transition costs associated with the new project for some members.

Fitch assesses the purchaser credit quality (PCQ) of membership as strong based on credit characteristics of the largest members, accounting for just over 50% of revenues. The largest members exhibit strong service area characteristics supportive of demand, retail rates above but competitive with the state average, and high residential rate affordability.

Operating Risk - 'a'

Low Operating Costs with Upward Pressure; Asymmetric Pressures with New Vogtle Units

The strong operating cost assessment reflects OPC's overall low operating cost burden but with upward pressure and continued asymmetric rating factor considerations associated with the near-term construction completion of Vogtle Unit 4 and a period of start-up operations for both units. Fitch-calculated operating cost burden averaged just above 5.0

cents/kWh between 2017 and 2021. Higher natural gas prices in 2022, along with extreme summer and winter weather periods, increased the operating cost burden to 7.1 cents/kWh. Going forward, the operating cost burden is expected to decline from 2022 levels given the diversified portfolio of generation assets, but are estimated to remain in the range of 6.0 cents/kWh, which is higher than historical levels and incorporates the costs of the Vogtle units. Operating cost flexibility is considered neutral to the rating.

The existing generating fleet's capital requirements are moderate and supported by ongoing capex. Continued member growth and the increased need for firm capacity has prompted the acquisition of gas-fired generation units and investments into dual fuel capability at certain units. Five-year capex is estimated at $2.0 billion. This represents higher capex than was originally expected once the Vogtle capital cycle is complete, but will still represent lower capex than during Vogtle construction. Capex is expected to be primarily debt financed, with completion bond issues for Vogtle expected near the end of 2023 and in May 2024.

Financial Profile - 'bbb'

High Leverage to Moderate with Vogtle Completion

OPC's financial margins and liquidity position are stable, and management's commitment to achieving interest coverage margins of 1.14x through 2024, the final year of Vogtle construction (above its indenture requirement of 1.1x) should continue to produce sufficient margins during construction. Coverage of full obligations is consistently above 1.5x and days cash on hand above 200 days, with the exception of 2022 when higher natural gas costs resulted in a decline in days cash, although actual cash balances remained robust.

Nuclear construction has necessitated significant debt financing and led to an elevated leverage ratio (14.9x in 2022 and 13.7x in 2021). Fitch expects leverage will remain elevated until 2024, at which time wholesale rate implemented in 2023 and planned in 2024 to correspond to commercial operation of the new units are projected to bring leverage down to 11.5x or below.

Asymmetric Additional Risk Considerations

No Asymmetric Additional Risk Considerations affected the overall rating, but an asymmetric rating factor consideration does exist within the Operating Risk assessment, as noted above.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Member credit quality that declines below the current 'a' purchaser credit quality assessment;

--Increased capex cycle that pushes leverage higher than current expectations in Fitch's forward look;

--The 'F2' CP rating will be downgraded if OPC's liquidity coverage of the maximum CP program falls below 1.1x or if OPC's IDR is downgraded below 'BBB'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Completion and consistent operation of Vogtle Units 3 and 4;

--Demonstrated trend of leverage below 11.5x in Fitch's base and stress cases;

--Continued stability in the credit quality of OPC members and an 'a' Purchase Credit Quality assessment;

--The 'F2' CP rating will be upgraded if the IDR moves above 'BBB' and liquidity coverage is above 1.25x.

PROFILE

OPC provides partial wholesale electric service to 38-member cooperatives located throughout Georgia. Its members collectively serve approximately 65% of the state's land area and encompass 151 of the state's 159 counties. OPC has a large and diverse generation portfolio of 9,046MW of generation capacity, member-owned resources and federal hydropower allocations. The portfolio provides a balanced mix of nuclear, natural gas and coal-fired resources to meet a portion of total member load requirements that grew at an average of 2.5% over the last five years.

OPC's members are responsible for procuring any remaining energy requirements not met by OPC's generation portfolio. Growth at the member level may be met through additional resource acquisitions at Oglethorpe, or direct member procurement of contracted resources, although continued interest in Oglethorpe acquisitions of generation capacity are expected to drive a larger capex cycle over the next five years than had been previously anticipated upon the completion of both Vogtle Units.

Vogtle Update

Construction is nearing completion at Vogtle Unit 4, the only active construction of a new nuclear plant in the U.S., following over a decade of cost overruns and delays. Construction is under the direction of Southern Nuclear, a subsidiary of Southern Company (BBB+/Stable), GPC's parent corporation. OPC has a 30% ownership position in the Vogtle nuclear expansion project along with three other co-owners: GPC ('BBB'/Stable; 45.7% share), the Municipal Electric Authority of Georgia (22.7%) and the city of Dalton utilities (1.6%).

Vogtle Unit 3 successfully entered commercial operation and Unit 4 has completed fuel load and begun the final stages preceding commercial operation, which OPC management expects to occur in Q1 2024. Importantly, OPC and Georgia Power have reached a settlement of outstanding lawsuits filed by both parties in 2022 regarding the starting baseline budget amount for the cost sharing bands and 'freeze option.' OPC will retain its 30% share in Vogtle Units 3 and 4, effectively not exercising the 'freeze option,' and GPC will pay OPC the amount due under the cost sharing bands, according to OPC's view of the starting baseline budget ($17.1 billion), plus interest. GPC will additionally pay 66% of OPC's share of remaining construction costs above the freeze tender threshold of $19.2 billion.

OPC's budget for its 30% share of Vogtle Units 3 and 4 is $8.3 billion. This estimate includes the settlement agreement with Georgia Power and a conservative commercial operation date of March 2024 for Unit 4. Prior to the settlement agreement, OPC had estimated the budget at $8.1 billion, including an assumed reduction in ownership share to 27.5% with OPC's exercise of the 'freeze option,' and the release of approximately 55MW of its 660MW.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Kathy Masterson
Senior Director
Primary Rating Analyst
+1 512 215 3730
kathryn.masterson@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

Dennis Pidherny
Managing Director
Secondary Rating Analyst
+1 212 908 0738
dennis.pidherny@fitchratings.com

Andrew DeStefano
Director
Committee Chairperson
+1 212 908 0284
andrew.destefano@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Power Rating Criteria (pub. 03 Mar 2023) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Burke County Development Authority (GA)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496 distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.