S&P Global
Ratings

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Summary:

Development Authority of Burke County, Georgia
Oglethorpe Power Corp.; CP; Joint Criteria; Rural Electric Coop

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Credit Profile		
US$100.0 mil pollution control rev bnds (Oglethorpe Pwr Corp) ser 2017E due 11/01/2045		
Long Term Rating	A-/Negative	New
US$100.0 mil pollution control rev bnds (Oglethorpe Pwr Corp) ser 2017D due 11/01/2045		
Long Term Rating	A-/Negative	New
US$100.0 mil pollution control rev bnds (Oglethorpe Power Corporation) ser 2017C due 11/01/2045		
Long Term Rating	A-/Negative	New
US$99.785 mil pollution control rev bnds (Oglethorpe Pwr Corp) ser 2017F due 11/01/2045		
Long Term Rating	A-/Negative	New

Rationale

S&P Global Ratings has assigned its 'A-' rating, with a negative outlook, to the following four series of Development Authority of Burke County, Ga.'s pollution control revenue bonds (Oglethorpe Power Corp. Vogtle Project) that the utility proposes to remarket as fixed- and term-rate bonds:

- $100 million series 2017C;
- $100 million series 2017D;
- $100 million series 2017E; and
- $99.8 million series 2017F.

Oglethorpe will remarket the four series under new CUSIP numbers.

The bonds will remain in a variable-rate mode until their conversion date on or about Feb. 1, 2018. We have not rated the bonds in their variable-rate mode. The authority sold the 2017 C-F bonds on behalf of Oglethorpe, which used the proceeds to retire several series of the county's development authority's 2008 pollution control revenue bonds in December.

The 2017C-F bonds will not begin amortizing until 2041 and mature in 2045. If the utility changes the interest-rate mode of the term-rate multimodal bonds before maturity, the bonds are subject to mandatory tender on the conversion date. Similarly, at the end of the proposed five-to-seven year term, the term-rate bonds are subject to mandatory tender. If these bonds cannot be remarketed on a conversion date or at the end of the term, we understand they will be returned to the preconversion date-holders of the bonds, and Oglethorpe will pay a failed remarketing period interest rate to the holders. The fixed-rate bonds are not subject to mandatory tender.

We understand that the authority's financing structure obligates the utility to unconditionally pay the bonds' debt service. Oglethorpe issued a note to the authority that provides it with a security interest in the utility's assets under its mortgage indenture. The county's bonds' security interest is on par with Oglethorpe's senior secured debt.

At the same time, S&P Global Ratings affirmed the following ratings assigned to the utility and its obligations:

- The 'A-' 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 (CP) 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.

Oglethorpe, based in Tucker, Ga., is a generation cooperative. The utility spun off its transmission business to Georgia Transmission Corp. (GTC) in 1997; GTC provides transmission services to all of Oglethorpe's members. The cooperative's members serve approximately 1.9 million meters, making Oglethorpe among the largest generation cooperative in the U.S. based on total megawatt-hour and energy sales to members. It sells wholesale energy under take-or-pay contracts to 38 retail electric distribution cooperatives serving portions of 151 counties throughout Georgia. The diverse customer base includes some of Atlanta's dense suburbs and sparsely populated rural communities. Oglethorpe provided nearly two-thirds of its members' energy needs in 2016. The members, to varying degrees, have secured power supply needs beyond those they are contractually bound to procure from the utility.

The cooperative reported $8.9 billion of long- and short-term debt and capital lease obligations as of Sept. 30, 2017. Long-term debt includes capital market debt and financings outside the capital markets. Capital leases represent a modest $90 million relative to the total debt portfolio. Financings outside of the capital markets include borrowings from CoBank ACB, National Rural Utilities Cooperative Finance Corp., and the Federal Financing Bank (FFB). Some of Oglethorpe's FFB borrowings carry guarantees from the U.S. Department of Agriculture's Rural Utilities Service (RUS) and others from the U.S. Department of Energy.

The ratings reflect our opinion of the following exposures:

- Although we calculated debt service coverage (DSC) of 1.5x for 2016, coverage was only 1.1x in 2012-2015, which we consider weak for the rating. The higher 2016 DSC reflects a $115 million principal payment, which was low relative to average annual principal payments of $161 million in 2013-2015. By comparison, we have calculated average annual principal payments of $251 million for 2017-2021. The cooperative plans to use cash balances to retire a portion of the maturing debt.
- The utility's $8.9 billion of debt as of Sept. 30, 2017, was nearly twice that of Dec. 31, 2009's $4.6 billion, largely due to debt supporting investments in new nuclear generation units at the Vogtle site in Georgia.
- In its Dec. 21, 2017 8-K filing, Oglethorpe reported that it revised its budget for its 660 megawatt, 30% interest in Vogtle units 3 and 4 to $7 billion, up from $5.3 billion earlier in the year and up from 2008's initial budget of $4.2 billion. The $7 billion figure reflects the recovery of $1.1 billion from Toshiba Corp. as the guarantor of the financial obligations of its construction contractor subsidiary, Westinghouse Electric Co. LLC (WEC), which filed for Chapter 11 bankruptcy protection in March 2017. In its bankruptcy proceedings, WEC rejected its fixed-price construction contract with the nuclear projects' co-owners, depriving them of the price protections it provided.
- In light of significant and repeated budget revisions, we believe that Oglethorpe remains exposed to uncertain costs.
- Before the WEC bankruptcy filing, Oglethorpe projected that debt will reach $9.7 billion by 2018, compared with $8.4 billion as of December 2016. Based on the recent 32% budget increase to $7 billion, we believe that completing

the plants without the fixed-price contract's protections could lead to debt balances exceeding $12 billion by 2022.

The ratings also reflect these factors:

- By discharging its guarantee obligations, Toshiba has removed one of many elements of uncertainty from the project, but Oglethorpe's $7 billion revised budget for its share of the project remains significantly greater than earlier projections.
- Through its members, Oglethorpe serves a broad customer base, with nearly 2 million end-use retail customers.
- In 2005, the utility's members extended their wholesale power contracts by 25 years to Dec. 31, 2050, to better align member and debt obligations with the useful lives of its generation assets. We view these long-term contracts that create joint and several, take-or-pay obligations as contributing to revenue stream predictability and stability.
- Residential customers represent about two-thirds of energy sales, which we consider as limiting revenue stream volatility because we view the residential customer class as providing greater stability than other classes.
- Oglethorpe earned at least 90% of its operating revenues from member sales from 2012-2016 and had only moderate exposure to wholesale power markets, largely because its energy portfolio was developed to serve only a portion of members' energy requirements, thereby limiting surpluses.
- Members' responsibility for sourcing about one-third of their energy needs from suppliers other than Oglethorpe can dilute the cost increases in the utility's rates because of Vogtle. However, other capacity additions have increased members' exposure to Oglethorpe costs. Before 2016, the cooperative's generation supplied about 50% of its members' energy requirements. Its generation fleet's contribution rose to 64% of members' energy requirements in 2016 based on the additions of the gas-fired Hawk Road combustion turbine and the Smith combined-cycle gas turbine.
- Oglethorpe's board can set rates without regulatory oversight.
- The cooperative uses adjustment mechanisms for recovering changes in energy costs, which the utility passes through to members on a 30-day lagged basis. The board has the discretion to adjust rates at any time, if needed, to meet its threshold 1.1x margins for interest requirement.
- A diverse fuel mix helps temper exposure to regulatory emissions limits. Coal's contribution to generation declined to 22% in 2015 and 2016 from about 30% in 2013-2014. The declines relate to natural gas prices that compare favorably with coal prices and the utility's addition of gas-fired generation units. Natural gas-fired generation accounted for one-third of 2015's and 2016's generation, up from 25% in 2013 and 24% in 2014. Nuclear consistently represented 40%-47% of 2013-2016 generation.

Oglethorpe owns or manages nearly 7,100 megawatts 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 members have agreed to participate in the construction projects for two additional nuclear units at the Vogtle site. The four include Oglethorpe's largest member, Cobb Electric Membership Corp., and some of the utility's smaller members.

The members have defined purchase obligations relating to all or some of the units in the utility's generation fleet. They purchase from other suppliers their additional energy and capacity needs that exceed their Oglethorpe project allocations. The members' joint and several obligations applies to all of the cooperative's generation resources, irrespective of participation in the resource, if the resource was built with the approval of 75% of the board; 75% of the membership base; and members representing at least 75% of the utility's patronage capital. If there are member defaults relating to resources with less-than-full membership participation, nondefaulting participants in the generation resource are required to cover the default. If they cannot, nonparticipating members are expressly obligated to contribute to curing the default proportionately if the approval thresholds were met.

Energy Information Administration data show that the members' weighted average retail rates for all customer classes was on par with the state average in 2015. Oglethorpe's average wholesale rate to members was 6.6 cents per kilowatt-hour in 2015 and 5.9 cents in 2016.

Oglethorpe's highly leveraged capital structure, with a 91% debt-to-capitalization ratio at both Dec. 31, 2015 and 2016, is at the upper end of the range for generation and transmission cooperatives.

We believe the utility's liquidity position is appropriate for the size of the cash needs of its substantial construction program.

Outlook

The negative outlook reflects our view that recent years' significant debt additions led to what we consider DSC that was weak for the rating in 2012-2015. Although coverage strengthened in 2016 based on that year's below-average principal payment obligation, we believe 2016 DSC is not predictive. The negative outlook also reflects the additional costs the utility will like face because of its exposure to the Vogtle nuclear projects and the pressures those costs could place on financial margins.

Downside scenario

We will lower our ratings on Oglethorpe if as annual principal payments increase in 2017 and beyond, the additional financial burdens relating to rising debt service, and the nuclear construction projects hinder the utility's ability to strengthen DSC metrics relative to 2012-2015 levels.

Upside scenario

We do not expect to raise the rating during our two-year outlook period, but could revise the outlook to stable if DSC strengthens and there is greater clarity about the costs that Oglethorpe and its partners will bear in connection with completing or abandoning the Vogtle projects.

Ratings Detail (As Of January 18, 2018)		
Oglethorpe Pwr Corp 4(2) CP		
Short Term Rating	A-2	Affirmed
Oglethorpe Pwr Corp		
Long Term Rating	A-/Negative	Affirmed
Oglethorpe Pwr Corp ICR		
Long Term Rating	A-/Negative	Affirmed
Oglethorpe Pwr Corp 1st mtg		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Appling Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Appling Cnty Dev Auth poll cntl rev bnds		
Long Term Rating	A-/Negative	Affirmed

Ratings Detail (As Of January 18, 2018) (cont.)		
Burke Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Burke Cnty Dev Auth		
Long Term Rating	A-/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
Long Term Rating	A-/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) (BHAC) (SEC MKT)		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) poll cntl		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Heard Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Heard Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Monroe Cnty Dev Auth, Georgia		
Oglethorpe Pwr Corp, Georgia		
Monroe Cnty Dev Auth		
Long Term Rating	A-/Negative	Affirmed
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
Long Term Rating	AA/A-1	Affirmed
Unenhanced Rating	A-(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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.