

# RatingsDirect®

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## Summary:

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

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## Summary:

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

### Credit Profile

#### Burke Cnty Dev Auth, Georgia

Oglethorpe Pwr Corp, Georgia

Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO

*Long Term Rating*

BBB+/Negative

Affirmed

## Rating Action

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 'BBB+' long-term and underlying ratings on several series of pollution control bonds issued on behalf of OPC whose debt service OPC has committed to support, issued by the development authorities of Appling County, Burke County, Heard County, and Monroe County, each with a negative outlook;
- The 'A-2' short-term rating on Oglethorpe's \$1.2 billion commercial paper program; and
- The 'AA-/A-1' ratings on three series of pollution control bonds issued by county development authorities on behalf of OPC, that we rate using our joint support rating methodology to reflect the benefits of bank credit support.

### Credit overview

OPC owns a 30% interest in two proposed 1,100-megawatt (MW) Westinghouse AP 1000 pressurized water reactor nuclear units under construction at Georgia's Vogtle site. All but four of OPC's members have agreed to participate in the Vogtle construction project that will add 660 MW to the utility's 7,100-MW portfolio.

Based on a history of material Vogtle project delays and cost overruns, the ratings reflect our opinion that Oglethorpe and its co-owners in the nuclear project face the potential for material cost escalations as the project proceeds. Citing equipment problems identified through testing and instances of subpar workmanship at the nuclear project site, Southern Co., the parent of Vogtle co-owner Georgia Power Co., reported in April that construction of Vogtle's unit 3 is behind schedule and unlikely to achieve its November 2021 in-service date, with commercial operation most likely in the first quarter of 2022. The construction schedule reflects years of delays. At construction's commencement, the co-owners projected bringing unit 3 online in 2016 and unit 4 in 2017.

Unit 4's construction is also running behind schedule, but Southern Co. remains optimistic that unit 4 can achieve a November 2022 commercial operation date based on lessons learned at unit 3.

In response to the delays, the co-owners are once again upsizing the funding of the project-level contingency fund, which adds costs for all participants. Oglethorpe maintains its own secondary contingency reserve as a shock absorber

for the repeated exhaustion and upsizing of the project-level reserve. The co-owners exhausted an \$800 million project-level contingency fund in the spring of 2020 and have recently depleted the supplemental funds they added. Oglethorpe believes that its contingency reserve's remaining balance of approximately \$200 million immediately prior to the latest project-level budget revision will provide a sufficient cushion to absorb its share of the project's latest cost revision and preserve its own \$7.5 billion budget for its project share. In 2008, OPC forecast a \$4.2 billion budget for its project share. OPC's figures include financing costs, the utility's 30% share of project-level contingencies, and OPC's own contingency.

OPC is a generation cooperative selling wholesale power to 38 distribution cooperatives serving about 2 million retail meters in portions of Georgia. About 67% of energy sales are to residential customers, 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. Furthermore, almost 100% of energy sales are to members, shielding the utility's revenue stream from potentially volatile market revenues and reflecting an energy portfolio developed to serve only a portion of members' energy requirements.

Members have defined purchase obligations. Some participate in and take energy from all the units in the Oglethorpe generation fleet. Others participate in a subset of the generation portfolio. Each of the members source from other suppliers their energy and capacity requirements that exceed their OPC allocations. OPC supplied 57% of its members' 2020-2021 energy requirements and projects this percentage will increase to 64% in 2023 after adding nuclear generation capacity at the Vogtle site and the acquisition of an existing gas-fired plant. Retirements of coal facilities co-owned with others will offset some of the contributions of the nuclear and gas-fired capacity additions.

Member contracts extend through 2050, which corresponds with current debt maturities. The cooperative plans to pursue membership approval of wholesale power contract extensions to facilitate amortizing Vogtle debt over the projected 60-year life of the plant. Contract extensions and debt reamortization should help align the depreciation expense the utility projects collecting in rates with the nuclear plant's debt amortization to support sound debt service coverage metrics.

Members' contracts with OPC create joint and several, take-or-pay obligations. 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, because all of the utility's projects have been constructed 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 the defaulted payments proportionally among the nondefaulting participants in all the generation resources that the defaulting members participate in. If the nondefaulting participants are unable to cover the defaulted payments, then nonparticipating members are obligated to contribute to curing the default proportionately.

The utility reported 2020 operating revenues of \$1.4 billion and debt balances of \$10.9 billion as of Dec. 31, 2020. Debt includes Rural Utilities Service loans and privately placed debt that we do not rate. However, we factor all OPC's debt into our ratings on the utility.

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.

Oglethorpe benefits from a diverse fuel mix. Coal-fired generation represented 5% of 2020's electricity production, 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 52% of 2020's generation, up from 25% in 2013. Nuclear generation represented 43% of 2020's generation.

The negative outlook reflects our view that the nuclear construction projects and their repeated delays and added costs, expose OPC to uncertain costs and contingencies. We believe cost overruns could add to debt and stress the utility's financial margins.

### **Environmental, social, and governance (ESG) factors**

Coal's contribution to energy production declined to 5% in 2020 from 31% in 2014, largely due to coal's economics relative to other fuels. Nevertheless, coal's limited contribution to generation limits the utility's environmental exposure. Although nuclear generation is free of greenhouse gas emissions, spent fuel disposal presents a long-term environmental exposure. Nuclear generation represented 41%-45% of recent years' electricity production and nuclear generation's contribution will increase with the Vogtle additions. Natural gas accounted for 52% of 2020's generation and although less polluting than coal, nevertheless, has carbon attributes.

OPC faces social risks that could limit financial flexibility. Although OPC's existing and planned generation wholesale costs represent only one component of retail electric rates that include distribution costs and the cost of energy that members source from other providers, 15 of 38 members' retail rates are at least 15% above the state average, which we view as presenting social risks.

A cohesive membership base that is committed to meeting wholesale power contract obligations mitigates governance risk.

## **Negative Outlook**

### **Downside scenario**

We will lower our ratings on the cooperative if debt service coverage (DSC) metrics weaken as the utility adds debt, or if Vogtle construction costs and the construction schedule continue to meaningfully depart from estimates and negatively pressure financial margins.

### **Return to stable scenario**

We do not expect to raise the ratings during our outlook period, but could revise the outlook to stable if the costs OPC and its partners will bear in connection with the project stabilize and become more definitive and support strong DSC.

## Credit Opinion

Recent years' annual DSC ratios reflect uneven principal amortization. We calculated coverage of 1.2x in 2018 on \$209.5 million of scheduled principal amortization, coverage of only 0.7x in 2019 on \$523.7 million of principal amortization, and coverage of 1.3x in 2020 on \$211 million of principal amortization. Debt amortizes within a narrower band of \$220 million-\$370 million through 2025. Based on the utility's forecast, we calculate sound DSC of 1.2x-1.4x in those years after removing the utility's projections of accelerated debt retirements from the projected amortization. About 25% of the utility's debt portfolio does not amortize before maturity. We believe the use of nonamortizing debt inflates DSC by 10-15 basis points compared with a fully amortizing debt portfolio.

We believe that OPC's ability to achieve projected coverage levels will depend on the ultimate costs of the Vogtle nuclear project and, over the long term, the ability to reamortize debt to extend maturities to reflect the projected life of the Vogtle plants.

We consider Oglethorpe's capital structure highly leveraged, with a 90% debt-to-capitalization ratio since 2012. OPC projects debt balances will increase to \$12 billion in 2023 from \$9.9 billion in March 2020. We believe the utility's liquidity position is appropriate for the size of the cash needs of its substantial construction program.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of May 26, 2021)		
Oglethorpe Pwr Corp 4(2) CP		
<i>Short Term Rating</i>	A-2	Affirmed
Oglethorpe Pwr Corp ICR		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
Oglethorpe Pwr Corp (AGM) RURELCCOO		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Oglethorpe Pwr Corp (FGIC) (National) RURELCCOO		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Negative	Affirmed
Oglethorpe Pwr Corp (Oglethorpe Pwr Corp Vogtle Proj) RURELCCOO		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
<b>Appling Cnty Dev Auth, Georgia</b>		
Oglethorpe Pwr Corp, Georgia		
Appling Cnty Dev Auth (Oglethorpe Pwr Corp) poll cntl rev bnds (Oglethorpe Pwr Corp Hatch Proj) ser 2013A dtd 04/23/2013 due 01/01/2038		
<i>Long Term Rating</i>	BBB+/Negative	Affirmed
<b>Burke Cnty Dev Auth, Georgia</b>		
Oglethorpe Pwr Corp, Georgia		
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) JOINTCRIT		
<i>Long Term Rating</i>	AA-/A-1	Affirmed

Ratings Detail (As Of May 26, 2021) (cont.)		
<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
<b>Heard Cnty Dev Auth, Georgia</b>		
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
<b>Monroe Cnty Dev Auth, Georgia</b>		
Oglethorpe Pwr Corp, Georgia		
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
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
<i>Long Term Rating</i>	BBB+/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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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