

RatingsDirect®

Summary:

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

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Credit Highlights

- S&P Global Ratings revised its outlook to stable from negative on Oglethorpe Power Corp. (OPC), Ga.
- At the same time, S&P Global Ratings affirmed the following ratings on OPC and its obligations: the 'BBB+' issuer credit rating and senior secured debt ratings; the 'BBB+' long-term and underlying ratings on several series of pollution control bonds, issued for OPC, whose debt service OPC has committed to support, issued by the development authorities of Appling County, Burke County, and Monroe County; and the 'A-2' short-term rating on Oglethorpe's \$1.2 billion commercial paper program.
- The outlook revision reflects our view of reduced financial and operational risks following commencement of commercial operations at Vogtle nuclear unit 3.

Security

Our assessment of the cooperative's creditworthiness considers the \$12.5 billion of existing long- and short-term debt issued by the utility, and projected debt balances and the cooperative's capacity to meet all financial obligations in full in a timely manner.

Most long-term debt is secured by property pledged under the cooperative's mortgage indenture.

Credit overview

The revised outlook reflects the July 31 commencement of commercial operations at Vogtle nuclear unit 3, albeit seven years behind schedule and at a cost that is almost double initial projections. Although construction continues at Vogtle unit 4, which has faced delays similar to those of unit 3, we view the inception of commercial operations at unit 3 and Nuclear Regulatory Commission authorization for the commencement of fuel loading at unit 4 as indicators of the reduced operating risks facing the cooperative. Nevertheless, meaningful exposures remain that dilute the sound financial metrics that otherwise support the rating, including:

- Litigation between OPC and Georgia Power Co. (GPC) to determine the validity of OPC's June 17, 2022, election to cap its units 3 and 4 construction costs. OPC estimates that if GPC prevails, OPC's share of construction costs could rise by \$535 million or 6.5% of OPC's \$8.1 billion project budget that assumes the validity of OPC's tender notice;

- Expectations that OPC's capping of its share of Vogtle construction costs will dilute its ownership interest in the Vogtle units by an amount that can only be determined at project completion based on total project costs;
- Uncertainties surrounding the completion costs and in-service date of unit 4, which GPC projects will enter service in late 2023 or early 2024 (S&P Global Ratings assumes the latter part of this range in its analysis); and
- The imminent near-doubling of OPC's annual principal payment obligations, which is partially attributable to the mismatch between the approximately 60-year life of the nuclear projects that represent about 60% of debt outstanding and the 2050 expiration of member wholesale power contracts that limits the final maturity of existing debt and its amortization to largely remain within the term of the member wholesale power contracts.

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. OPC projects that its initiative to cap its share of construction costs will likely dilute its 660 MW interest by 55 MW or 8.3%. All but four of OPC's members have agreed to participate in the Vogtle construction project.

Since construction's inception, the Vogtle project has encountered numerous and material construction delays and cost overruns. Throughout construction, GPC, the owner of the largest interest in the Vogtle projects and the construction lead, repeatedly added to cost projections and extended in-service dates, citing construction problems, instances of subpar workmanship at the nuclear project site, and pandemic-related health and safety measures, among other factors. At construction's commencement, the co-owners projected bringing unit 3 online in 2016 and unit 4 in 2017. During the construction phase we incrementally lowered the OPC rating to 'BBB+' from 'A'.

Citing budget increases relative to GPC's August 2018 Vogtle Cost Monitoring (VCM-19), OPC maintains that as of June 2022 it and its members were entitled to elect to either continue to contribute to the project's completion costs or tender to GPC the obligation to absorb completion costs above a \$19.2 billion construction cost threshold for all project participants.

GPC disputes OPC's calculations. Along with its alternative view of the measurement of the VCM-19 benchmark, it contends that costs attributable to force majeure events, such as those incurred due to pandemic-related construction delays, must be netted from the calculation. Consequently, GPC maintains that the project reached the threshold for triggering the tender option at a later date than June 2022 and at a higher cost threshold.

OPC is a generation cooperative selling wholesale power to 38 distribution cooperatives serving about 2 million retail meters in portions of Georgia. About two-thirds of members' 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 58% of its members' 2022 energy requirements. OPC projects this percentage will increase only modestly with the Vogtle nuclear capacity

additions along with new gas-fired capacity because of retirements of coal facilities co-owned with others.

Member contracts extend through 2050, which corresponds with current debt maturities. Contract extensions to facilitate amortizing Vogtle debt over the projected 60-year life of the plant and debt reamortization could help align the nuclear plant's debt amortization with the depreciation expense the utility plans to collect in rates to mitigate the effects of Vogtle costs on its wholesale electricity prices and to support sound debt service coverage (DSC) 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 2022 operating revenues of \$2.1 billion and short- and long-term debt balances of \$12.5 billion as of Dec. 31, 2022, up from \$10.96 billion as of Dec. 31, 2020. In addition to capital market debt issues that we rate, 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. OPC's leverage ratio has been 91% for several years, which we consider high for a cooperative utility and we expect leverage will remain at this level over the next five years. DSC averaged 1.3x during 2020-2022 and based on OPC projections, will vary from adequate to sound depending on annual principal amortization requirements.

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 10% of 2022's electricity production, which was down from about 30% in 2013-2014. Reduced coal dependence reflects natural gas prices that favored gas-fired electricity production over coal-fired generation, and the addition of the Smith, Hawk Road, and Effingham gas-fired generation assets. Natural gas-fired generation accounted for 53% of 2022 generation, up from 25% in 2013. Existing nuclear generation at Vogtle units 1 and 2 and Hatch units 1 and 2 represented 36% of 2022's generation.

Environmental, social, and governance

Coal's limited contribution to generation limits the utility's environmental exposures. Although existing nuclear generation is free of greenhouse gas emissions, spent fuel disposal presents a long-term environmental exposure. Nuclear generation represented 38%-44% of recent years' electricity production and nuclear generation's contribution will increase with the Vogtle additions. Natural gas accounted for 54% of 2022'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, almost 40% of the 38 members exhibit retail rates that are at least 15% above the state average, which we view as presenting social risks. Furthermore, OPC projects wholesale rate increases of at least 7% over five years.

A cohesive membership base that remains committed to meeting wholesale power contract obligations and supporting Vogtle-related debt mitigates governance risk. Yet, the issue of wholesale member contract extensions remains unresolved.

Outlook

The stable outlook reflects our view that the cooperative faces reduced operating and financial risks based on the commencement of commercial operations at Vogtle unit 3 and authorization to commence fuel load at unit 4. In addition, this highly leveraged utility projects sound but somewhat variable DSC that reflects elevated and fluctuating annual principal amortization requirements.

Downside scenario

We will lower our ratings on the cooperative if DSC metrics weaken as the utility adds debt for Vogtle and other capital needs. An inability to extend the wholesale power contracts with members to optimize debt amortization might exacerbate this exposure.

Upside scenario

We do not expect to raise the ratings during our outlook period given projections of steep increases in annual principal amortization, the financial and operational exposures that unit 4 completion presents, and uncertainties surrounding initiatives to extend member contracts to better reflect the useful life of the nuclear plants' depreciation schedule.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of August 9, 2023)		
Oglethorpe Pwr Corp 4(2) CP		
<i>Short Term Rating</i>	A-2	Affirmed
Oglethorpe Pwr Corp (FGIC) (National) RURELCCOO		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Outlook Revised
Appling County Development Authority, Georgia		
Oglethorpe Power 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+/Stable	Outlook Revised

Ratings Detail (As Of August 9, 2023) (cont.)

Burke County Development Authority, Georgia

Oglethorpe Power Corp., Georgia

Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO

<i>Long Term Rating</i>	BBB+/Stable	Outlook Revised
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Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO

<i>Long Term Rating</i>	BBB+/Stable	Outlook Revised
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Monroe County Development Authority, Georgia

Oglethorpe Power Corp., Georgia

Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) RURELLCCOO

<i>Long Term Rating</i>	BBB+/Stable	Outlook Revised
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Many issues are enhanced by bond insurance.

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