S&P Global
Ratings

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Summary:

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

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Credit Profile		
US$350.0 mil green first mtg bnds ser 2024A due 06/01/2054		
Long Term Rating	BBB+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'BBB+' rating to Oglethorpe Power Corp. (OPC), Ga.'s proposed $350 million series 2024A green first-mortgage bonds due June 1, 2054.
- 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 (CP) that has principally been used as a bridge to long-term financing.
- The outlook, where applicable, is stable.

Security

OPC is issuing the bonds to refinance CP issued as interim financing for portions of the construction costs of Vogtle nuclear units 3 and 4, along with other projects.

Our assessment of the cooperative's creditworthiness considers the $12.6 billion of existing long- and short-term debt issued by the utility, 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 rating and stable outlook reflect the following strengths:

- Our view that Vogtle-related operational and financial risks diminished with the July 31, 2023, commencement of commercial operations at Vogtle nuclear unit 3; the Oct. 5, 2023, settlement agreement with Georgia Power Co., resolving litigation surrounding the allocation of Vogtle construction costs among partners in the Vogtle project; and the April 29, 2024, entry of Vogtle unit 4 into commercial operation;
- Historical and projected sound debt service coverage (DSC) of 1.2x in 2022 and 2023, and $634 million of balance sheet liquidity equivalent to 271 days' operating expenses at Dec. 31, 2023, before capacity available under credit facilities;
- November 2023's extension to 2085 from 2050 of members' contracts for the purchase of OPC wholesale power,

with an evergreen mechanism for further contract extension, which should facilitate aligning debt maturities with the useful lives of the assets they finance and promote manageable amortization schedules; and

- Reduction of coal dependence to only 10% of 2021-2023 electric generation.

We believe the following exposures temper the preceding strengths:

- The imminent near-doubling of OPC's annual principal payment obligations that reflects Vogtle financings and historical limitations on the tenor of debt amortization, which, before the extension of members' wholesale power contracts to 2085, was constrained to 2050 and was not aligned with the anticipated 60-year life of the nuclear projects that account for about 60% of debt outstanding;
- To compensate for increasing annual debt service requirements and additional debt in support of capital investments, management projects increasing rates 13% over five years relative to 2024's wholesale rate to achieve projected sound DSC of 1.1x-1.3x;
- The already highly leveraged cooperative projects almost $2.5 billion of 2024-2028 capital spending; and
- Contemplated generation capacity additions could sharply add to the cited capital spending projections figure. However, the timing of these projects remains uncertain.

Environmental, social, and governance

We believe that environmental exposures are moderate. Coal's 10% contribution to generation following power plant retirements limits the utility's environmental exposures. However, natural gas accounted for 54% of 2022's and 2023's generation, and although less polluting than coal, nevertheless has carbon attributes.

Although existing nuclear generation is free of greenhouse gas emissions, spent fuel disposal presents a long-term environmental exposure. Nuclear generation represented 36%-44% of recent years' electricity production. Management projects nuclear generation's contribution will remain toward the upper end of this range with the addition of the Vogtle nuclear plant, gas-fired generation, and renewable resources.

OPC faces social risks that could limit financial flexibility. The cooperative serves a broad swath of Georgia and the state's median household effective buying income is 7% below the U.S. median. In addition, 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. Energy Information Administration (EIA) data indicate that 15% of the 33 of 38 members that reported data to EIA for 2022 exhibit retail rates that are at least 10% above the state average, which we view as presenting potential affordability challenges. In addition, OPC projects increasing member wholesale rates 13% by 2028 compared with 2024's per kilowatt-hour member rate.

Because OPC supplied only 68% of members' energy needs in 2023, the percentage supplied to individual members varies from the average. OPC's rate increases are diluted to the extent that its members' distribution costs and supplemental power procurement costs from other suppliers are lower. It is uncertain whether contemplated generation capacity additions will further pressure wholesale rates and when their costs will be reflected in rates.

We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Inflation as measured by the Consumer Price Index (CPI) has remained above 3%

in recent months, and S&P Global Economics forecasts elevated interest rates persisting at least until December. (See "Persistent Above-Target Inflation Will Delay The Start Of Rate Cuts In The U.S.," published May 1, 2024, on RatingsDirect). In addition, Bureau of Labor Statistics data shows that electricity price inflation continues to outpace the overall CPI. The amalgam of material increases in delinquent consumer, credit card, and auto loans, along with the resumption of student loan payments and drawdowns of household savings garnered during the pandemic, will likely compound the financial pressures facing electricity consumers.

Governance attributes include a cohesive membership base committed to meeting wholesale power contract obligations and supporting Vogtle-related debt and members' agreement to extend the wholesale power contracts through 2085.

Outlook

The stable outlook reflects our view that the cooperative faces reduced operating and financial risks based on the extension of wholesale power contracts and the commencement of commercial operations at Vogtle units 3 and 4. In addition, this highly leveraged utility projects sound but somewhat variable DSC that reflects plans to increase wholesale rates to address elevated and fluctuating annual principal amortization requirements and additional debt for capital projects.

Downside scenario

As the utility adds debt for Vogtle and other capital investments, we could lower our ratings if DSC metrics weaken below forecast levels ranging from 1.1x in 2024 to 1.2x-1.3x through 2028.

Upside scenario

We do not expect to raise the ratings during our outlook period given projections of steep increases in annual principal amortization and the uncertain costs of generation capacity additions.

Credit Opinion

OPC owns a 30% interest in each of two 1,100-megawatt (MW) Westinghouse AP 1000 pressurized water reactor nuclear units at Georgia's Vogtle nuclear site. All but four of OPC's members participate in the Vogtle project.

Since construction's inception, the Vogtle project encountered numerous and material construction delays and cost overruns that resulted in an $8.3 billion project budget. At construction's commencement, the co-owners projected bringing unit 3 online in 2016 and unit 4 in 2017. As a result of delays and cost overruns, we incrementally lowered the OPC rating to 'BBB+' from 'A' during construction.

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. The percentage of power sales to members reflects 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 68% of its members' 2023 energy requirements. Because members are obligated to procure load growth resources, management projects OPC's percentage share of members' power supply will increase only modestly with the addition of Vogtle nuclear, gas-fired, and renewable capacity.

The recent extension of member wholesale power contracts to 2085 should facilitate amortizing Vogtle debt over the plant's projected 60-year life and align debt amortization and useful lives of other capital investments.

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 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 2023 operating revenues of $1.7 billion and short- and long-term debt balances of $12.7 billion as of Dec. 31, 2023, up from $10.96 billion as of Dec. 31, 2020. As of March 31, 2024, long-term debt and capital leases decreased slightly to $12.6 billion.

Through this financing, management is refinancing short-term bridge borrowings with long-term debt. Management projects debt balances will climb to $14.4 billion in 2024 before modestly declining to $14.1 billion in 2028. However, contemplated generation capacity additions, whose timing remains uncertain, will likely add to debt balances.

In addition to capital market debt issues that we rate, debt includes Rural Utilities Service loans, Department of Energy guaranteed loans, and privately placed debt that we do not rate. 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 was 1.2x during 2022-2023 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 2023'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; the addition of the T.A. Smith, Hawk Road, and B.C. Smith gas-fired generation assets; and Vogtle unit 3 achieving commercial operation. Natural gas-fired generation accounted for 54% of 2023 generation, up from 25% in 2013. In 2023, nuclear generation at Vogtle units 1 and 2, Hatch units 1 and 2, and Vogtle unit 3 represented 36% of 2023's generation.

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 June 18, 2024)		
Oglethorpe Pwr Corp 4(2) CP		
Short Term Rating	A-2	Affirmed
Oglethorpe Pwr Corp ICR		
Long Term Rating	BBB+/Stable	Affirmed
Oglethorpe Pwr Corp (AGM) RURELCCOO		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Oglethorpe Pwr Corp (FGIC) (National) RURELCCOO		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Oglethorpe Pwr Corp (Oglethorpe Pwr Corp Vogtle Proj) RURELCCOO		
Long Term Rating	BBB+/Stable	Affirmed
Appling County Development Authority, Georgia		
Oglethorpe Power Corp., Georgia		
Appling County Development Authority (Oglethorpe Power Corp.) poll cntl rev bnds (Oglethorpe Pwr Corp Hatch Proj) ser 2013A dtd 04/23/2013 due 01/01/2		
Long Term Rating	BBB+/Stable	Affirmed
Burke County Development Authority, Georgia		
Oglethorpe Power Corp., Georgia		
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
Long Term Rating	BBB+/Stable	Affirmed
Burke Cnty Dev Auth (Oglethorpe Pwr Corp) RURELCCOO		
Long Term Rating	BBB+/Stable	Affirmed
Monroe County Development Authority, Georgia		
Oglethorpe Power Corp., Georgia		
Monroe Cnty Dev Auth (Oglethorpe Pwr Corp) RURELLCCOO		
Long Term Rating	BBB+/Stable	Affirmed

Many issues are enhanced by bond insurance.