Public Power
New Issue

Oglethorpe Power Corporation

(OPC)

Ratings

New Issues

$400,000,000 OPC First Mortgage Bonds, Taxable Private Placement, Series 2009B	A

Outstanding Debt

$2,000,000,000 Outstanding First Mortgage Debt (excluding FFB/RUS debt	A
$450,000,000 Commercial Paper	F1
$27,000,000 OPC Scherer Lease Corporation Transaction	A

Rating Outlook

Stable

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Key Utility Statistics

(Fiscal Year Ended 12/31/08)

System Type	Electric Cooperative
No. of Members	38
Annual Revenues ($ Mil.)	1,238,760
Top Three Members (% of Revenues)	35
Primary Fuel Source	Natural Gas/Coal
Peak Demand (MW)	8,576
Energy Growth (%)	0
Debt Service Coverage (x)	1.25
Days Operating Cash	74
Equity/Capitalization (%)	N.A.

N.A. – Not applicable.

Related Research

- *Fitch Rates Oglethorpe Power Corp.'s $400MM Series 2009B First Mortgage Bonds 'A'; Outlook Stable, Oct. 13, 2009*
- *Fitch Rates Oglethorpe Power Corp.'s $250MM Series 2009A 2009B First Mortgage Bonds 'A'; Outlook Stable, Feb. 5, 2009*
- *Oglethorpe Power Corporation, Aug. 28, 2008*
- *U.S. Public Power Peer Study, June 11, 2009*

Rating Rationale

- The 'A' rating reflects the Oglethorpe Power Corporation's (OPC) stable member base, supported by take-or-pay joint and several power sales contracts running through 2050. Also factored into the rating is OPC's proven cost recovery, reflective of its ability to pass through to its members' actual energy costs, including fuel and purchased power, in a timely manner. Member retail rates remain competitive for the region.
- OPC is undertaking a large capital expansion program to meet future energy needs of its members. Credit pressure could arise as OPC takes on a significant amount of long-term debt to finance approximately $7.5 billion to $9.0 billion in new generation facilities and upgrades.
- OPC is participating, along with the largest electric utilities in the state of Georgia (MEAG Power, city of Dalton, and Georgia Power Company), in the Plant Vogtle nuclear units 3 and 4 expansion project. In addition to their prior experience owning and operating the existing Plant Vogtle and Hatch nuclear units, the co-owners have signed an engineering, procurement, and construction (EPC) contract with Westinghouse and Stone and Webster to construct the two new AP1000 nuclear units at the existing Plant Vogtle site.
- In anticipation of the large capital requirements, OPC has taken steps to proactively strengthen its balance sheet, liquidity, and debt service coverage. Its board agreed to target higher margin for interest levels, and debt service coverage is projected to improve. OPC has substantially increased its cash on hand from $150 million–$200 million to more than $400 million currently. OPC also has undertaken a concerted effort to strengthen its liquidity through increasing cash and adding new credit facilities. The financing strategy that OPC is embarking on appears reasonable and Fitch Ratings views the board's commitment as a credit positive.
- Based on OPC's projected power resources needed to meet future load growth, there appears to be a minimal risk that the proposed generation projects will put OPC in an "excess capacity" situation because they will be replacing contracts that terminate in 2015. In addition, member energy needs are projected to exceed what Oglethorpe will supply even with this new generation construction.

Key Rating Drivers

- Construction of a nuclear plant is a project of massive scale and as with any project of such size and scope; the credit risk is often highest during the construction period. Fitch recognizes there are significant liquidity and capital requirements associated with construction and operation of nuclear assets. Fitch also notes that OPC applied for what could be a substantial amount of Department of Energy (DOE) guaranteed funding at a very competitive lending rate and is currently negotiating a term sheet in connection with final DOE approval. As OPC begins its extensive debt issuance program to finance its capital expansion, Fitch will continue to focus on how the costs of financing, building, operating, and decommissioning these nuclear facilities could affect OPC's financial metrics and overall financial health.

Rating History

Rating	Action	Outlook/ Watch	Date
A	Affirm	Stable	10/9/09
A	Affirm	Stable	8/22/08
A	Affirm	Stable	9/13/06
A	Affirm	Stable	10/18/04
A	Affirm	Stable	3/7/00
A	Assigned	Stable	3/12/97

- In response to climate change, there has been proposed federal legislation to limit the emissions of carbon dioxide (CO2). It appears very likely that some form of limit to the emissions of CO2 is likely in the near future. While OPC is working to reduce its overall carbon footprint, the added costs on OPC members and the ultimate consumers could be significant, although OPC expects its rates will remain in-line with its in-state competitors. Fitch will continue to monitor the financial and operational impact of costs associated with carbon emissions on OPC.

Credit Summary

OPC is owned by 38 retail electric distribution cooperatives (the members) for the purpose of providing wholesale electric power to the members. OPC is the largest electric cooperative in the U.S. in terms of assets and kilowatt hour sales (kWh). The members in turn provide retail electric service to their respective residential, commercial, and industrial customers.

New Issue Details

The $400 million taxable 2009B first mortgage bonds will be issued as 144A regulation S bonds with registration rights. The 2009B bonds will be secured on parity with all of OPC's other bond obligations issued pursuant the indenture by a first mortgage lien on substantially all of OPC's owned assets (including electric generating plants and related generating assets).

Proceeds will be used to: 1.) Finance a portion of the costs associated with OPC's participation in the two additional nuclear units at Plant Vogtle; 2.) redeem outstanding commercial paper and; 3.) for general purposes. The 2009B bonds are tentatively scheduled to mature in 2039.

Management/Governance and Business Strategy

OPC's proactive management has developed a comprehensive financing plan in order to undertake its extensive capital expenditure program. OPC's permanent financing plan calls for the issuance of up to $9.01 billion through 2017. OPC will use a combination of short-term debt, commercial paper, as well as long-term debt from the federal Rural Utility Service (RUS), DOE, and the taxable and tax-exempt markets. The largest component of the capital plan is clearly the Vogtle units 3 and 4 expansion. OPC plans to use a combination of DOE-guaranteed financing and taxable and tax exempt financing in order to fund $4.262 billion, its share of the Vogtle 3 and 4 additional nuclear units. OPC plans to also utilize RUS funding for its biomass projects and natural gas combined cycle and combustion turbines. In OPC's proposed capital expenditure program, 2013 and 2014 appear to be the peak spend years.

Demographics

OPC's members serve approximately 1.7 million electric customers, representing about 4.1 million people. OPC members serve a region covering approximately 37,000 square miles, which is approximately 65% of the land area in Georgia (encompassing 150 of the state's 159 counties). Member sales to retail consumers in 2008 amounted to approximately 34 million megawatt-hours (MWh) with approximately 68% to residential customers, 29% to commercial and industrial customers, and 3% to other customers.

OPC members are the principal suppliers to rural Georgia. The members are relatively diversified and the three largest suppliers (Cobb EMC, Jackson EMC, and Sawnee EMC) combined only account for 35% of OPC total revenues. None of the other members account for more than 10% of revenues on an individual basis. Although none of the members serve major urban areas, there are several that have experienced substantial growth due to their close proximity to urban areas, including several that supply power to heavily populated suburbs of Atlanta. OPC members experienced a 2.1% compound annual growth rate in megawatt-hour sales and a 5.5% growth rate in electric revenues from 2006–2008. According to the 2008 load forecast for the next 10 years, members project that demand growth will be 3.6% and energy growth was projected at 3.4%.

OPC is in the process of completing its 2009 load forecast. Based on preliminary findings on load growth, members are forecasting lower growth rates than the 2008 forecast due to the economic downturn. As a result, OPC and its members are re-evaluating some of the planned new generation projects (other than Vogtle units 3 and 4), and in particular, are evaluating whether to cancel, scale-back, or delay one of the two planned biomass projects.

However, based on forecast load growth, it is unlikely that OPC will overbuild beyond its expected demand levels. Even with OPC participation in the construction of the Vogtle units 3 and 4, as well as the two biomass generating units, and the proposed natural gas-fired generation, members will still be required to contract for additional capacity to fill the gap between OPC power resources and members' projected demand.

Assets/Operations

OPC has an ownership interest in 35 generating units. These units provide OPC with a total of 5,544 MW of nameplate capacity. While coal was OPC's primary fuel, its natural gas generation has eclipsed its coal generating capacity. OPC's 2,225 MW's of gas-fired generation accounts for 46% of OPC-owned generation capacity resources. OPC's 1,501 MW of coal-fired generation still account for 24% of the power resource mix. Its 1,185 MW of nuclear power generation make up 19% of power resources owned by OPC.

The following are two recent events regarding the Plant Vogtle nuclear units 3 and 4 expansion project.

- On Aug. 26, 2009, the Nuclear Regulatory Commission (NRC) issued an early site permit (ESP) and limited work authorization (LWA) to Southern Nuclear Operating Company for the Vogtle ESP. The ESP process allows a narrow set of construction activities at the site. The NRC is currently reviewing Southern Nuclear's application for a combined construction and operating license (COL) to build and operate two new AP1000 reactors at the existing Vogtle site. Currently, OPC anticipates that the NRC will issue the COL in August 2011 and construction of the nuclear island will begin October 2011. Based on the existing construction schedule, unit 3 is expected to be in service by April 2016 and unit 4 is slated to be in service by April 2017.
- On Oct. 15, 2009, the NRC issued a letter to Westinghouse addressing design review aspects of the shield building for the AP1000 reactor design. The NRC said Westinghouse has not demonstrated that certain structural components of the revised AP1000 shield building can withstand design basis loads. The NRC also indicated that the overall impact on the AP1000 certification review schedule will be established after the NRC staff and Westinghouse review the plans to address NRC's concerns with the shield building design. According to a company press release, Westinghouse fully expects the NRC to require additional analysis, testing, or actual design modifications to the shield building. According to Westinghouse, they have already begun to address certain portions of the design. Westinghouse has committed the resources necessary to quickly address the NRC's concerns, and Westinghouse is confident that it will meet all applicable requirements. Westinghouse continues to work toward the goal of receiving design amendment certification from the NRC in 2011, and it will continue to work to bring the first AP1000s online in the U.S. in the 2016 time frame.

Cost Structure

Proposed Capital Plan

Based on the 2008 load forecast that was developed from member projections, OPC has identified approximately $8.9 billion of projected capital expenditures through 2017 (including interest during construction). OPC has identified the following new generating resources, which total $8.9 billion:

- Vogtle nuclear expansion ($4.2 billion).
- New combined cycle and combustion turbine gas-fired ($2.3 billion).
- Existing fleet renewal and replacement ($1.5 billion).
- Biomass generation ($0.9 billion).

Of the projected annual capital expenditures through 2017, the Vogtle units 3 and 4 expansion make up a large portion of overall program. This, along with improvements to the existing fleet of generation and the proposed combined cycle units, serve to make 2013 and 2014 the highest years in terms of capital spends. OPC still has flexibility to downsize the proposed capital expenditure program if member load forecasts are revised downward.

Wholesale Power Contracts

OPC provides electric service to its 38 members pursuant to long-term, take-or-pay amended and restated wholesale power contracts dated June 1, 2005 (which extend through Dec. 31, 2050). The wholesale power contracts obligate OPC members jointly and severally to pay rates sufficient to recover all the costs of owning and operating its power supply business. Pursuant to the wholesale power contract, each member is unconditionally obligated to take-or-pay for a fixed percentage of the capacity costs of each of OPC's generation and purchased power resources (whether or not power is delivered and whether or not a plant is otherwise unavailable). Each member has chosen which projects it will participate in and what percentage of participation they will take.

To construct or acquire a future resource, OPC requires that 75% of members of the board, 75% of members, and members representing 75% of patronage capital, all approve the resource. Members are required to pay all amounts due to OPC as an operating expense of their respective retail electric systems. If a participating member defaults, then each nondefaulting member is obligated to pay its proportionate share of such default. Note that under the wholesale power contract, OPC is not obligated to provide all of its members' capacity and energy requirements. OPC supplied energy sufficient to meet approximately 65% of its members' retail energy requirements from its owned generation in 2008.

Each member is required to pay OPC for capacity and energy furnished under its wholesale power contract. Power costs are expected to increase through 2017 due to a combination of environmental regulation, fuel prices, and the construction of the Vogtle units 3 and 4, as well as the other generation that is being planned.

Financial Position

As part of its strategy, OPC continues to strengthen its balance sheet and coverage levels in anticipation of the large capital expenditure program that it is undertaking. For fiscal year-end Dec. 31, 2008, OPC generated 1.56x annual debt service coverage, which was a noticeable step up from 1.01x in 2007. The increased coverage was due to adjustments to principal payments related to the 2008 refinancing, as well as the netting of capitalized interest. While days of operating cash on hand was reduced to 74 days in 2008 from 143 days in 2007 as OPC weathered the economic downturn, it maintained a respectable amount of liquidity as illustrated by the 431 days of liquidity on hand in 2008. Financial projections show strong coverage of debt service as well as OPC's plans to build liquidity and cash through 2013.

In 2008, market conditions were not conducive to securing large syndicated credit facilities. Therefore, management's strategy for 2009–2010 is to secure sufficient cost-effective facilities directly with relationship banks for at least a year or longer. In addition, OPC has initiated a prepayment of power bills, which contained $200 million as of Sept. 30, 2009 and adds to Oglethorpe's liquidity until credited against future power bills. OPC is currently negotiating documentation with CoBank and JP Morgan for a $150 million, three-year credit facility from each, both of which are expected to close in the near future, on top of the $800 million of liquidity that OPC currently maintains.

OPC's long-term liquidity strategy is to continue to build its total liquidity targets from the $1.1 billion to $1.3 billion level (2009–2011) up to $2.1 billion–$2.3 billion in 2013–2014, which appears to be an adequate level to navigate through those years that are projected to have the highest capital expenditures.

Fitch believes that the financial projections are based on reasonable key assumptions regarding load growth, rate increases, and the capital spend program that OPC plans to undertake. Fitch will continue to monitor OPC's efforts to secure low cost financing, its financial metrics, and ability to meet projected expectations.

Legal Requirements

- Rate covenant: OPC must generate margins for interest of at least 1.10x in each fiscal year.
- Additional bonds test (historical test): OPC must certify that it is in compliance with the minimum margins for an interest ratio of 1.10x.
- Limitations on distributions to members: In the event OPC's equity is below 20% of its long-term debt and equities (capitalization), then OPC is prohibited from making a distribution of dividends, payments, or patronage capital to its members.

Financial Summary — Oglethorpe Power Corporation

($000, Fiscal Years Ended Dec. 30)

	2008	2007	2006	2005	2004
Cash Flow (x)					
Debt-Service Coverage	1.56	1.01	0.99	0.94	1.11
Adjusted Debt-Service Coverage with General Fund Transfer	1.56	1.01	0.99	0.94	1.11
Coverage of Full Obligations	1.48	1.01	0.99	0.95	1.08
Liquidity					
Days Cash On Hand	74	143	217	83	55
Days Liquidity On Hand	431	611	702	277	55
Leverage (%)					
Debt/Funds Available for Debt Service	8.8	8.4	9.5	10.2	8.5
Equity/Capitalization	—	—	—	—	—
Equity/Adjusted Capitalization	—	—	—	—	—
Other (%)					
General Fund Transfer/Total Revenue	—	—	—	—	—
Variable Rate Exposure/Capitalization	10.1	16.0	15.5	15.7	—
Income Statement					
Total Operating Revenues	1,238,760	1,151,242	1,128,879	1,169,523	1,312,772
Total Operating Expenses	1,041,681	964,014	947,637	976,447	1,114,710
Operating Income					
Adjustment to Operating Income for Debt Service Coverage	244,287	265,491	274,940	261,426	261,663
Funds Available for Debt Service	442,226	452,325	416,653	371,404	459,725
Total Annual Debt Service	284,169	446,624	422,060	393,959	415,416
Balance Sheet					
Unrestricted Funds	167,659	290,930	423,757	170,734	133,669
Restricted Finds	14,815	53,738	24,709	245,736	100,936
Total Cash	182,474	344,668	448,466	416,470	234,605
Total Debt	3,873,789	3,797,039	3,950,536	3,788,825	3,886,911
Equity and/or Retained Earnings	19,259	19,061	18,201	—	—