MOODY'S
INVESTORS SERVICE

Credit Opinion: Oglethorpe Power Corporation

Global Credit Research - 16 Aug 2011

Tucker, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	Baa1
Senior Secured Shelf	(P)Baa1
Commercial Paper	P-2

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Key Indicators

Oglethorpe Power Corporation[1]

	Dec-08	Dec-09	Dec-10	3-Year Avg
TIER [2]	1.0x	1.0x	1.0x	1.0x
DSCR [2]	1.2x	1.3x	1.3x	1.3x
FFO / Debt	4.9%	4.1%	4.1%	4.3%
FFO / Interest	1.8x	1.8x	1.8x	1.8x
Equity / Capitalization	11.8%	9.9%	9.2%	10.1%

[1] All ratios calculated in accordance with Moody's Electric G&T Cooperative Rating Methodology using Moody's standard adjustments [2] Moody's definitions may differ from indenture covenants

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Large base load power supply

- Long-term wholesale power contracts and rate-setting autonomy

- Weak financial credit metrics relative to many peers

- Increased risk profile related to heavy capital expenditure program

Corporate Profile

Oglethorpe Power Corporation is a generation-only electric cooperative that provides wholesale power to its 39 member-owner distribution cooperatives located throughout the state of Georgia. Oglethorpe's power is supplied by its ownership shares in two coal and two nuclear facilities operated by co-owner Georgia Power and one pump-storage hydroelectric facility, as well as a number of wholly-owned gas-fired units. Together, these resources provide Oglethorpe with 7,078, MW of owned/leased capacity, ranking it among the largest cooperatives rated by Moody's in terms of generating capacity. It is also among the largest in terms of revenues, with $1.3 billion of sales in 2010.

Recent Events

On August 12, 2011, Moody's assigned a Baa1 rating to Oglethorpe's planned issuance of approximately $300 million of first mortgage bonds, proceeds from which are intended to be used for repayment of commercial paper balances outstanding associated with the construction of Plant Vogtle Units 3 and 4. Concurrently, we affirmed all of Oglethorpe's other existing ratings and its stable rating outlook. See Press Release of August 12, 2011 for further details.

Rating Rationale

Oglethorpe's Baa1 senior secured rating reflects our view that the cooperative has materially increased its business risk with a substantial multi-year capital spending plan and that this elevated risk profile has not, to date, been mitigated by any meaningful improvement in credit metrics or cash flows. The centerpiece of the build-out, at approximately $4.2 billion, is Oglethorpe's 30% participation in the expansion of the Vogtle nuclear facility in Waynesboro, Georgia. While new nuclear construction brings its own unique challenges, the company has also announced future investment in required environmental controls at existing facilities. Oglethorpe has also added new generating capacity through debt-financed asset purchases which further increased its balance sheet debt ahead of anticipated debt to fund the Vogtle expansion.

The rating also considers Oglethorpe's positive credit qualities including its large size relative to its electric cooperative peers in the U.S., its base-load electric generating profile, long-term wholesale power supply contracts (through 2050) with its 39 member-owners in the state of Georgia, and the relatively healthy financial profile of its distribution members. Importantly, the rating also considers the company's absence of regulation at the state level with respect to rate-setting.

Nevertheless, Oglethorpe's credit metrics are weak for the rating category. Prospectively, the capital investment plans expected over the next several years are not anticipated to provide any meaningful improvement to the financial profile. For example, Oglethorpe's FFO to debt of approximately 3.7% is at the low end of the 3-6% range for the "Baa" rating category for electric cooperatives and the cooperative's equity to capitalization at approximately 9% is roughly at the mid-point of the 5-20% range for the "Baa" category (both metrics as of June 30, 2011). These financial metrics are expected to continue to decline over the next several years unless mitigating steps such as rate increases to recover interest during construction are taken. The rating outlook is stable; however, there is the possibility that further rating stress could develop over time absent a change to the prospective financial profile.

DETAILED RATING CONSIDERATIONS

STRONG RELATIONSHIP WITH MEMBERS

Oglethorpe sells virtually all of its generation output to its members pursuant to wholesale power contracts, limiting its exposure to market volatility. However, unlike most of the other electric cooperatives rated by Moody's, which are the sole electric providers to their members, Oglethorpe supplies its members with significantly less than 100% of their aggregate energy needs. The share of the members' aggregate needs supplied by Oglethorpe has declined from 92% in 2004 to 56% in 2010. Although each member is entitled to and pays all costs associated with a fixed level of capacity from specific Oglethorpe generating units, the members on their own currently obtain their supplemental power requirements and fulfill their load growth from other sources.

In general, Moody's methodology treats members' decreasing reliance on their G&T cooperative as an indication of potentially weakening commitment on their part. In Oglethorpe's case, this is less of a concern for the following reasons: 1) its members remain joint and severally liable to pay all of the cooperative's costs; and 2) we believe Oglethorpe's stable supply of relatively affordable base-load power will become increasingly valuable to its members as their needs grow and they are continually forced to look for additional sources of supply. For example, the member base is substantially supportive of Oglethorpe's investment in the Vogtle Unit 3 and 4 expansion. Moody's area of concern is with the non-Oglethorpe power supply where members have separate arrangements with power suppliers expiring from 2015-2031. These supplemental arrangements will need to be renewed or replaced on terms not detrimental to the financial profile of each of the participating members involved.

MEMBERS CAPACITY TO ABSORB RATE INCREASES MAY BE PRESSURED IN FUTURE YEARS

While Oglethorpe is not required to serve its members' load growth, which has limited the amount of power Oglethorpe needs to purchase or build on their behalf, a decision was made in 2008 by all members to fully commit to the expansion of the Vogtle nuclear facility in Waynesboro, Georgia. The Vogtle expansion, which is being undertaken by the same co-owners and in the same percentage ownership the co-owners have in the first two Vogtle units (Georgia Power Company will own 45.7% of the new units, Oglethorpe 30%, Municipal Electric Authority of Georgia 22.7%, and the City of Dalton 1.6%), involves the construction of two additional units (1,100 MW per unit) and will utilize Westinghouse AP1000 technology.

Costs associated with the Vogtle project, for which Oglethorpe would participate at the 30% level, as well as other capital spending needs (pollution controls on its existing coal-fired units) will be substantial. The reported cost for the nuclear units alone could reach $4.2 billion, including AFUDC, by the target in-service date of 2016-2017. In our view, this introduces pressure at the current rating level due to the significant cost and scale of the combined projects and the implied increase in business risk of the cooperative as it takes on its pro-rata share of new nuclear plant construction.

Moody's expects Oglethorpe to finance these construction costs with internal cash flows and additional debt, including new first mortgage bonds, new loans guaranteed by the federal government's USDA Rural Development Electric Program ("RUS") and the Department of Energy. A significant percentage of the nuclear capital spend is expected to potentially be covered under the DOE loan guarantee program (possibly up to 70% of eligible construction costs). Oglethorpe does not anticipate any funds to be advanced under the loan until the combined construction and operating license ("COL") is approved by the NRC. On August 9, 2011, the NRC technical staff provided its Final Safety Evaluation Report, which we view as a positive development given its indications that the design of the Westinghouse AP1000 plant had been approved. Oglethorpe still anticipates that a COL could be provided by the NRC in late 2011; however, such action could slip into Q-1 2012. Material delays in receiving loan proceeds, including setbacks to the COL, would likely be viewed negatively. That said, management has recently advised that if a second limited work authorization for certain advance work at the Vogtle site is approved, then minor setbacks in obtaining the COL would likely be less problematic.

Although this long-range spending appears likely as does a corresponding increase in rates, Oglethorpe's exposure to potential rate shock in the near-term remains limited by its high degree of fuel and resource diversity. In 2010, 44% of Oglethorpe's energy was generated by stable coal-fired resources, while 41% came from its nuclear ownership shares, both of which continue to demonstrate good operating performance. As a result, Moody's expects Oglethorpe's average rates to remain reasonably competitive in the short-term (rates for 2010 were approximately 5.71 cents/KWh vs. 5.67 cents/KWh in 2009). Further, we note that Oglethorpe remains able to adjust its rates easily and quickly, if necessary, without needing to seek regulatory approval. In addition, fuel and purchased power costs are passed straight through to members one month in arrears.

HEALTHY FINANCIAL PROFILE OF MEMBERS

On average, Oglethorpe's member profile is consistent with its rating. Their substantially residential customer base (approximately 69% of MWh sales in 2010) provides them with a high degree of stability. While their relatively high average level of indebtedness, reflected in an average equity to capitalization ratio of 45%, is consistent with a Baa rating, this is counterbalanced by a flexible environment with respect to rate-setting, the most substantial consolidated assets of any cooperative rated by Moody's, and a relatively stable expected rate of growth. While the members vary widely in terms of their individual size, only three of Oglethorpe's members accounted for more than 10% of Oglethorpe's total member revenues in 2010, the largest at approximately 15%. Oglethorpe's wholesale power supply contracts with its members through 2050 reinforce the member's commitment to Oglethorpe as an integral component of their power supply.

WEAKENED FINANCIAL METRICS FOR RATING CATEGORY

Oglethorpe's budgeting practices have consistently enabled it to achieve its minimum target of 1.1 times Margin for Interest (MFI), as defined in its indenture. And in 2009, Oglethorpe's board approved a plan to increase rates first to a level that would enable the company to achieve an MFI ratio of 1.12 times in 2009 and then to 1.14 times in 2010. As an electric cooperative, Oglethorpe does not seek to maximize margins and as such credit metrics such as MFI or Debt Service Coverage are oftentimes less useful as a measure of credit strength as they are often designed to be at or near 1 times coverage. For example, under more traditional measures, Oglethorpe's Funds From Operations (FFO) to adjusted debt of 3.7% is clearly at the low end of the 3-6% range for the "Baa" rating category for electric cooperatives and the company's equity to capitalization at approximately 9% is roughly at the middle of the 5-20% range for the "Baa" category (both metrics as of June 30, 2011).

Going forward we will continue to evaluate the potential impact that Oglethorpe's capital plan will have on key credit metrics, as well as the company's willingness to support this build-out with near-term rate increases. For example, to the extent Oglethorpe expenses rather than capitalizes interest during construction, we would expect a lower level of external finance and more stable credit metrics. We understand that the board is in advanced stage discussions with members about a flexible rate plan that would give members the option to accept higher rates to cover interest during construction. To the extent that a large majority of members support this approach, we would consider such action as credit positive. That said, any future challenges to the Vogtle project including material delayed timing or increased cost, could place further stress on the rating.

Liquidity

We view Oglethorpe's current liquidity as adequate, especially in light of recent steps taken to upsize the amount of available bank credit and extend the tenor of its commitments. Given the scale and complexity of Oglethorpe's various projects, liquidity will be increasingly important to the rating over the next several years (e.g., the period from 2012-2014 will be particularly critical as capital spending ramps up further).

External short-term liquidity is now primarily provided by the company's $1.265 billion committed senior unsecured credit facility, which expires June 2015. This facility replaces Oglethorpe's $475 million credit facility and other smaller sized facilities, and primarily serves as backup liquidity for the company's Prime-2 commercial paper program, which was expanded to $1.265 billion from the old level of $475 million. The facility has same-day drawing availability and no ongoing material adverse change clause. The most notable covenant requires Oglethorpe to maintain minimum patronage capital levels which it comfortably achieves.

Oglethorpe also currently maintains several additional committed credit facilities for an incremental $600 million of borrowing capacity, $200 million of which is senior unsecured credit and $400 million of which is senior secured bank credit. An additional $60 million of senior unsecured bank credit is expected to be added in October 2011 in conjunction with renewal and extension of an existing $50 million commitment from National Rural Utilities Cooperative Finance Corp. After addressing this impending facility expiration, Oglethorpe's next nearest term expiration date for its bank credit facilities would relate to a $150 million secured bank credit agreement with CoBank, which expires in November 2012. We note that several of these additional lines contain "material adverse event" language for ongoing borrowings which are viewed as being less reliable. Combined borrowing capacity under all lines totaled $1.3 billion at June 30, 2011 and the company reported cash on hand of $417.9 million, consistent with its objective of keeping $300 to $400 million of cash on hand at all times. Also, as of June 30, 2011, Oglethorpe had $15.6 million on deposit in the RUS cushion of credit account (which earns interest at 5%). Oglethorpe periodically contributes to the cushion of credit program and these funds are restricted solely for repayment of obligations borrowed under the RUS loan program. At June 30, 2011, Oglethorpe reported current maturities of long term debt at $134 million.

Rating Outlook

The rating outlook is stable, reflecting our view that the current rating level captures some of the potential risk to the cooperative's current financial profile, and we continue to incorporate a view that Oglethorpe's rate-setting flexibility will need to be utilized more heavily. However, any future challenges to the Vogtle project including material delays in timing and/or increases in cost, could place stress on the rating and lead to a negative outlook or review for possible downgrade.

What Could Change the Rating - Up

Given the significant planned construction activities over the next several years, Oglethorpe's rating is weakly positioned at Baa1 senior secured and it is unlikely that the ratings will be upgraded. An effort to manage the cooperative to accelerate equity growth, to recover interest during construction rather than capitalizing such amounts, and to achieve credit metrics materially above current levels could help improve Oglethorpe's positioning at its current rating level. Credit metrics that would support an upgrade include a funds from operations to debt closer to 6% and equity to capitalization approaching 20%.

What Could Change the Rating - Down

Given the large new nuclear construction program currently under way, Oglethorpe's "cushion" at the current rating level is limited. Consequently, future rating downgrades are possible if Oglethorpe does not show a material strengthening in its credit metrics over the medium term or if the company experiences significant cost overruns or delays on its nuclear construction project, incurs a sustained deterioration of its liquidity or future rate increases necessary to strengthen its cash flow credit metrics and equity levels in the capital structure are delayed. When considering prospective metrics, funds from operations to debt below 4% for an extended period would likely be a contributing factor leading to a negative rating action.

Rating Factors

Oglethorpe Power Corporation

U.S. Electric Generation & Transmission Cooperatives	Aaa	Aa	A	Baa	Ba	B
Factor 1: % Member Load Served and Regulatory Status (20%)					Ba	
Factor 2: Rate Flexibility (20%)						
a) Board Involvement / Rate Adjustment Mechanism (5%)				Baa		
b) Purchased Power / Sales (5%)	1.8%					
c) New Build Capex / Net PP&E (5%)					Ba	
d) Rate Shock Exposure (5%)					Ba	
Factor 3: Member / Owner Profile (10%)						
a) Residential Sales / Total Sales (5%)			66.7%			
b) Members' Consolidated Equity / Capitalization (5%)				45.5%		
Factor 4: 3-Year Average Financial Metrics (40%)						
a) TIER (5%)					1.0x	
b) DSC (5%)			1.3x			
c) FFO / Debt (10%)				4.3%		
d) FFO / Interest (10%)				1.8x		
e) Equity / Capitalization (10%)				10.1%		
Factor 5: Size (10%)						
a) MWh Sales (5%)		20.2				
c) Net PP&E (5%)	$ 5.0					
Rating:						
a) Indicated Rating from Methodology			Baa2			
b) Actual Rating Assigned (Senior Secured)			Baa1			