Moody's Investors Service

Credit Opinion: Oglethorpe Power Corporation

Global Credit Research - 15 Sep 2009

Tucker, Georgia, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating	Baa1
First Mortgage Bonds	A3
Bkd Senior Secured	Aa3
Commercial Paper	P-2
OPC Scherer Funding Corporation	
Outlook	Negative
Bkd Senior Unsecured	Baa1

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Key Indicators

Oglethorpe Power Corporation

	Dec-06	Dec-07	Dec-08	3-Year Avg
Times Interest Earned (Tier)	1.0x	1.0x	1.0x	1.0x
Debt Service Cover (DSC)	1.1x	1.0x	1.0x	1.0x
FFO / Debt	6.1%	5.7%	5.2%	5.7%
FFO / Interest	2.1x	1.9x	1.9x	2.0x
Equity / Capitalization	10.9%	11.2%	12.0%	11.4%
Net Operating Margin	12.6%	15.9%	15.9%	14.8%

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

Opinion

Rating Drivers

- Large baseload power supply

- Long-term wholesale power contracts

- Somewhat below average credit metrics

- Increased risk profile related to new nuclear construction

Corporate Profile

Oglethorpe Power Corporation is a generation-only electric cooperative that provides wholesale power to its 38 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 5,244 MW of owned 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 $1.2 billion of sales in 2008.

Recent Events

On September 15, 2009 Moody's changed Oglethorpe's rating outlook to negative from stable. The negative outlook reflects Moody's view that Oglethorpe is increasing its business risk profile with a substantial multi-year capital spending plan and that this elevated risk profile has to date not been mitigated by a 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 environmental controls at existing facilities plus new generation facilities including two biomass plants that will further add to the substantial increase in balance sheet debt anticipated with the Vogtle expansion.

Rating Rationale

Oglethorpe's A3 senior secured and Baa1 issuer ratings reflect the company's positive credit qualities including its large size relative to its peers in the U.S., owned low-cost base-load electric generating profile, long-term power supply contracts with its 38 member-owners in the state of Georgia, and the relatively healthy financial profile of its members. 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.

The rating also reflects Oglethorpe's somewhat below average financial metrics as compared to its peer group and the fact that it supplied its members with just 65% of their energy needs in 2008; below what is typical for the sector. As reflected in the negative outlook, we note that Oglethorpe is currently entering a period of elevated capital spending for environmental compliance projects and new generation projects in the near future which will undoubtedly lead to a material increase in the absolute level of debt on the company's balance sheet and increased rates to its members.

The key factors influencing Oglethorpe's ratings and negative outlook include:

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 power and energy needs. The share of the members' aggregate needs supplied by Oglethorpe has declined from 92% in 2004 to 65% in 2008. 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 baseload power will become increasingly valuable to its members as their needs grow and they are continually forced to look for additional sources of supply. Moody's area of concern is with the non-Oglethorpe power supply where members have separate arrangements with power suppliers expiring from 2009-2019. 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, will be substantial. Moody's believes that new capital spending over the 5-year period from 2009-2013, including spending for Vogtle, development of two 100MW biomass generating facilities, and pollution controls on its existing coal-fired units, could approximate $4.2 billion (roughly double the company's current net PP&E). Additionally, the reported cost for the nuclear units alone could reach $4.2 billion (or approximately $6,300/KW) including AFUDC, by the target in-service date of 2016-2017. In our view, this introduces significant downward rating 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 company in taking on with 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 guarantee program although if the DOE loan application is approved, 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, and that decision is not expected until mid-to late 2011.

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. While 46% of Oglethorpe's owned-capacity is derived from gas-fired units, this volatile fuel source provided just 13% of its energy in 1H-2009. Approximately 40% of Oglethorpe's energy was generated by more stable coal-fired resources while 43% came from its nuclear ownership shares, both of which continue to demonstrate relatively strong operating performance. As a result, Moody's expects Oglethorpe's average rates to remain reasonably competitive in the short-term (rates through 1H-2009 were approximately 5.81 cents/KWh vs. 5.3 cents/KWh in FY2008). 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 A-category rating. Their substantially residential customer base (approximately 68% of MWh sales) 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 43%, 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 revenues in 2008, the largest at 13%

SOFT FINANCIAL METRICS FOR RATING CATEGORY

Oglethorpe's budgeting practices have consistently enabled it to achieve its target of 1.1 times Margin for Interest (MFI), as defined in its indenture. And we note that Oglethorpe recently announced a board approved decision to increase rates in 2009 to a level that would enable the company to achieve an MFI ratio of 1.12 times (and 1.14 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 cover. For example, under more traditional measures, Oglethorpe's FFO to adjusted debt of 5% is clearly below the 6-10% range for the "A" rating category for electric cooperatives and the company's equity to capitalization at 11% is materially below the 20-35% range for the "A" category (both metrics as of June 30, 2009). This credit profile, combined with the scale and complexity of its capital spending forecast over the next several years is a key reason why the rating outlook is currently negative.

Liquidity

Oglethorpe has made good progress over the past 12-18 months in fixing certain short-term obligations as well as addressing uncertainty related to existing leveraged lease transactions. As a result, we believe the company's short-term liquidity has improved; however, longer-term we believe this level of liquidity will need to be maintained or enhanced over the next several years to meet growing debt service and funding obligations related to planned construction activities. We believe the period from 2012-2015 will be particularly critical as capital spending easily exceeds $1.0 billion per year.

External short-term liquidity is primarily provided by the company's $450 million credit facility (expires July 2012). This facility primarily serves as backup liquidity for the company's Prime-2 commercial paper program. The facility has same-day drawing availability and no material adverse change clause. The most notable covenant requires Oglethorpe to maintain minimum patronage capital levels which it comfortably achieves. Oglethorpe also maintains two additional $50 million facilities provided by CFC and Co-Bank, respectively. And in 2009 the company put in place an additional $250 million secured revolving credit facility (expires 2013) with a term out option. Outstanding short-term debt at June 30, 2009 was $222 million and Oglethorpe reported cash on hand of $382 million.

Rating Outlook

The negative rating outlook reflects cash flow metrics that are weak for the rating coupled the increased business and operating risk profile of this G&T Cooperative as it undertakes a significant capital expenditure program for new nuclear construction as well as conventional and biomass generation and environmental compliance. While funding plans will undoubtedly be managed carefully, credit metrics will need to improve materially to avoid further rating pressure.

What Could Change the Rating - Up

Given the negative outlook and the significant planned construction activities over the next several years it is unlikely that the ratings will be upgraded. An effort to manage the cooperative to accelerate equity growth and to achieve credit metrics materially above current levels could stabilize the rating.

What Could Change the Rating - Down

Given the large new nuclear construction program currently under way, Oglethorpe's potential flexibility or "cushion" at the current rating level is substantially limited. Consequently, future rating downgrades are possible if Oglethorpe does not show a material strengthening in its credit metrics over the near term or if the company experiences 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.

Other Considerations

MAPPING TO THE RATING METHODOLOGY

The attached grid shows the mapping of Oglethorpe's to the 22 sub-factors outlined in our U.S. Electric Generation and Transmission Cooperatives Rating Methodology published in May 2006. Based on the data reported through December 31, 2008, the weighted-average of the 22 factors (i.e. the "methodology-implied" rating) indicates a rating of "Baa1" which is within a notch of the current A3 senior secured rating. Nevertheless, looking out over the next several years the significant increase in the overall business risk profile due to the planned construction activities over the next several years is not fully captured in the implied historical rating at this time.

Rating Factors

Oglethorpe Power Corporation

U.S. Electric Generation & Transmission Cooperatives	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Wholesale Power Contracts (15%) a) % Member Load Served					65%		
Factor 2: Rate Flexibility (20%) a) Regulatory Review / Relationship with Regulators		Aa					

b) Board Involvement / Rate Adjustment Mechanism			A				
c) Purchased Power / Sales %		7%					
d) New Build Capex (% Net PP&E)					Ba		
e) Rate Competitiveness				Baa			
f) Rate Shock Exposure					Ba		
Factor 3: Member / Owner Profile (20%)							
a) Demand Growth				2.0%			
b) Residential Sales / Total Sales			68%				
c) Members' Consolidated Assets ($billions)		$6.1					
d) Members' Consolidated Equity / Capitalization				43%			
e) Regulatory Status		Aa					
Factor 4: 3-Year Average Financial Metrics (40%)							
a) TIER					1.0x		
b) DSC					1.0x		
c) FFO / Debt				5.7%			
d) FFO / Interest				2.0x			
e) Equity / Capitalization				11.4%			
f) Net Operating Margin			14.8%				
Factor 5: Size (10%)							
a) MWh Sales		23.309					
b) Revenues ($millions)			$1,237.6				
c) Net PP&E ($millions)		$3,639.4					
d) MW Owned and Purchased		5,244					
Rating:							
a) Indicated Rating from Methodology (senior secured)				Baa1			
b) Actual Rating Assigned (senior secured)				A3			

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