

**Rating Action: Moody's upgrades Old Dominion Electric Cooperative to A1; outlook stable**

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21 Apr 2021

**Approximately \$183 million of debt securities affected**

New York, April 21, 2021 -- Moody's Investors Service, ("Moody's") upgraded Old Dominion Electric Cooperative's (ODEC) senior secured debt ratings to A1 from A2. The rating outlook is stable.

Upgrades:

..Issuer: Old Dominion Electric Cooperative

...Senior Secured First Mortgage Bonds, Upgraded to A1 from A2

...Senior Secured Regular Bond/Debenture, Upgraded to A1 from A2

Outlook Actions:

..Issuer: Old Dominion Electric Cooperative

...Outlook, Remains Stable

RATINGS RATIONALE

"The rating action reflects ODEC's good prospects for maintaining its strong financial metrics, against a backdrop of moderate capital expenditures and dependence on strategic power purchase agreements (PPAs)", said Vice President-Senior Analyst Kevin Rose. "ODEC's liquidity is also improving, not only as capital expenditures have declined to more normal maintenance levels since the Wildcat Point plant began commercial operations in April 2018, but because a sizable long-term PPA expired in May 2020, thus making potential collateral calls less likely", Rose added.

Steady strengthening of financial metrics is evident through funds from operations (FFO) to debt and FFO coverage of interest metrics improving to in excess of 8% and about 2.6x, respectively for both fiscal years ended December 31, 2020 and 2019, compared to 6.8%, and 2.3x, respectively, for 2018. ODEC's equity to capitalization ratios have also been improving to the range of 26%-28%, respectively for the past two fiscal years compared to 24.8%, at FYE 2018, and debt service coverage (DSC) is expected to approximate the 1.4x level that it reached the last two years.

ODEC continues to benefit from the low risk cooperative structure that provides ODEC's board the flexibility to adjust rates when necessary and without regulatory approval. It also produces predictable revenue streams by providing essential services throughout a stable service territory covering the greater Virginia-Delaware-Maryland region under long-term wholesale power contracts that bind the distribution customer-member-owners to ODEC until January 1, 2054. The credit profile is also aided by the largely amortizing debt structure, a credit positive characteristic often seen in cooperative's capital structure.

ODEC maintains adequate liquidity by supplementing its internally generated cash flow with ample external liquidity through a syndicated committed five-year revolving credit agreement, which expires February 28, 2025. The committed amount of the facility is \$500 million through March 3, 2022 and then decreases to \$400 million through the expiration date. The agreement has a \$150 million accordion feature and is considered a good external source of liquidity since it has a multi-year tenor and does not contain any ongoing material adverse event language. Also, the financial covenants are fairly standard for the cooperative sector, in this case establishing ODEC's maximum allowed debt to capitalization at 85% and a minimum required margins-for-interest (MFI) coverage of 1.1x. The MFI test is comparable to that in ODEC's mortgage indenture. As of December 31, 2020, ODEC was in compliance with these covenants, had approximately \$9.3 million of cash on hand, did not have any borrowings outstanding under its bank agreement, had a \$0.5 million letter of credit outstanding under the agreement, and reported \$49.0 million of current maturities of long-term debt.

## RATING OUTLOOK

ODEC's stable rating outlook incorporates the likelihood for sound financial metrics during the latest five-year forecast period as mostly routine capital spending should be largely funded with internally generated cash flow and allow for debt reduction and strong cash flow coverage metrics. The outlook also takes into account ODEC's strong service territory economy, which is proving to be resilient to the potential negative effects of the coronavirus pandemic, while it reaps benefits from operational, business and rate flexibility provided by the electric G&T cooperative structure and prudent

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

### What Could Change the Rating -- Up

- Maintaining affordable rates through operating the Wildcat Point plant as a long term, reliable source of owned generation while also optimizing power purchase strategies through cost effective PPAs and economic dispatch decisions
- Positive credit pressure would particularly build if ODEC continues to follow its financial policies and further strengthens its credit metrics within the A or better rating category for a sustained period
- In terms of metrics, maintaining FFO to debt at or above 10%, a DSC ratio well in excess of 1.4x, and achieving equity to capitalization of 35% or better, in all instances for a sustained period would increase the prospects for an upgrade

### What Could Change the Rating -- Down

- A downgrade of ODEC's rating is unlikely unless there is an unexpected material increase in its moderate capital spending plans that creates a need for sizable incremental debt
- If ODEC fails to maximize the value of its Wildcat Point plant while effectively managing PPA and economic dispatch decisions, then downward rating pressure could surface
- Negative pressure would increase particularly so if liquidity were to diminish in a material way or if less conservative financing strategies were introduced that resulted in FFO to debt decreasing to less than 8.0%, a DSC ratio less than 1.2x and equity to total capitalization declining to less than 25%, in all instances for a sustained period

Old Dominion Electric Cooperative is a not-for-profit electric generation and transmission cooperative based in Glen Allen, Virginia.

The principal methodology used in these ratings was US Electric Generation & Transmission Cooperatives published in August 2018 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1130742](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1130742). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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