RATING ACTION COMMENTARY

Fitch Upgrades Old Dominion Electric Coop to 'A+'; Outlook Revised to Stable

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Fitch Ratings - New York - 17 Nov 2020: Fitch Ratings has upgraded the following Old Dominion Electric Cooperative's (ODEC) outstanding long-term obligations to 'A+' from 'A':

--$93,745,000 first mortgage and indenture bonds, 2003 series A;

--$112,500,000 first mortgage and indenture bonds, 2002 series B.

In addition, Fitch has also upgraded ODEC's Issuer Default Rating (IDR) to 'A+' from 'A'.

The Rating Outlook is revised to Stable from Positive.

ANALYTICAL CONCLUSION

The upgrade on ODEC's long-term issuer default and senior secured obligations' ratings reflects a trend of continued improvement in the cooperative's financial profile and leverage. With the completion of its last major generating station, Wildcat Point, ODEC's capital expenditures and debt requirements have abated. Operating cash flow has steadily improved, and with debt outstanding on the decline, net leverage has moderated to a level more consistent with the higher rating.

ODEC's rating further reflects its very strong revenue defensibility, anchored by its sound long-term contractual framework and strong member credit quality as well as its low operating cost burden and diversified resource portfolio. With the completion of Wildcat Point, capital spending is expected to be considerably less over the next five years, minimizing new debt requirements and supporting the continued gradual decline in debt outstanding.

CREDIT PROFILE

ODEC is a generation and transmission (G&T) cooperative that supplies power to 11 member distribution cooperatives throughout Virginia (nine members), Delaware (one) and Maryland (one). The member distribution cooperatives serve a geographically large area that extends from the suburbs of Washington DC to the North Carolina border and from the Atlantic shores to the Appalachian Mountains. The territories include largely rural, suburban and recreational areas. Together, the members serve approximately 600,000 retail electric customers, representing a total population of approximately 1.5 million.

ODEC supplies power and energy to its members pursuant to long-term, all-requirements wholesale power contracts (WPCs). Capacity and energy needs are largely met through the cooperative's portfolio of owned generation and purchased power resources. Each member's supply requirement is subject to certain exceptions, including any hydroelectric power allocated to it from the Southeastern Power Administration (SEPA) or other needs, up to the greater of 5% of its demand and associated energy or 5 MW and associated energy.

ODEC's 11 member distribution systems are referred to as Class A members. ODEC also provides service to a single Class B member, TEC Trading Inc. (TEC), a taxable corporation owned by the member distribution cooperatives. TEC sells surplus ODEC power supply into the market. The assets and liabilities of TEC are recorded at carrying value and represent a very modest $5.9 million at Sept. 30, 2020.

Coronavirus Impact Limited

With respect to the coronavirus impacts this year, ODEC estimates total member energy sales are down roughly 5% through the end of September (nine months ended fiscal 2020); however, weather largely accounted for the lower usage. COVID curtailed commercial and industrial sales were mostly offset by higher residential usage, as the members' aggregate load is heavily residential (62.6%) and more customers worked from home through the pandemic.

Despite the coronavirus outbreak and business curtailments earlier this year, ODEC's financial performance year-to-date for fiscal 2020 (ended Sept. 30) did not indicate impairment, as the cooperative's lower energy sales were largely offset by reduced fuel and purchased power expense. Additionally, ODEC utilizes margin stabilization provisions in its demand billings to further support ODEC's budgeted net margin levels.

Revenue Defensibility: 'aa'

Strong Contractual Framework and Member Credit Quality

ODEC's revenue defensibility is supported by all-requirements contracts with its 11 members and the strong credit quality of the cooperative's largest members. Rate regulation and potential for load loss throughout the membership limit flexibility but are adequately managed and do not constrain the assessment.

Operating Risk: 'a'

Low Operating Costs; Diversified Resources

ODEC's operating risk assessment reflects low operating costs of 6.9 cents per kWh in 2019 and factors in the cooperative's diversified and flexible resource portfolio. Recent investment related to its newest generating resource leaves the cooperative's age of plant favorably low and its lifecycle investment needs as moderate. Capex is expected to moderate considerably below recent levels.

Financial Profile: 'a'

Declining Leverage; Weak Liquidity

ODEC's financial profile reflects the cooperative's improved leverage ratio, which has declined in recent years and equaled 7.6x in 2019. Coverage of full obligations has consistently exceeded 1.18x in recent years and borrowing capacity is ample, but the cooperative's liquidity is assessed as weaker given minimal cash balances at year end.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations are factored in the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained leverage ratio below 8x in Fitch's base and stress scenarios;

--Liquidity profile assessment improved to neutral;

--Maintenance of the strong member purchaser credit quality and low operating cost burden.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Weaker operating performance or unexpected rise in capex that results in sustained leverage above 9x.

--A decline in the largest members' purchaser credit quality assessment.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

SECURITY

ODEC's IDR reflects Fitch's assessment of the cooperative's vulnerability to default on its financial obligations. Senior secured obligations benefit from a security interest in substantially all of ODEC's tangible and certain of its intangible assets.

REVENUE DEFENSIBILITY

ODEC's revenues source characteristics are very strong as revenues are largely derived from its 11 member cooperatives that purchase their power requirements pursuant to identical all-requirements WPCs. The WPCs require the members to purchase all of their power needs from ODEC, with limited exception, and provide for the unlimited reallocation of costs in the event of a member default. The WPCs extend through at least Jan. 1, 2054, and cannot be terminated. The member WPCs extend beyond ODEC's outstanding long-term debt, which has a final maturity of Dec. 1, 2053.

ODEC's WPCs provide limited exceptions to the all-requirements provision, and laws in each of the states served by the ODEC members provide some aspect of competitive energy supply that could permit retail customers to purchase power from suppliers other than the member cooperative. In each case, however, the potential variability of sales has been adequately managed within ODEC's power supply portfolio. Moreover, these provisions do not preclude the unlimited reallocation of costs among the members, which supports full cost recovery and the cooperative's revenue defensibility assessment.

In Delaware and Maryland, retail customers have the right to choose their power supplier. While the power supply choice provisions could expose ODEC's two members to greater revenue volatility over time, the absence of a robust competitive supply market in these states has largely mitigated the risk. Currently, no retail customer of either member has switched to an alternative provider. In Virginia, retail choice is available only to customers that (a) consume at least 5 MW of power and do not account for more than 1% of the incumbent utility's peak load, (b) have non-coincident peak loads of greater than 90 MW or (c) customers seeking 100% renewable energy if not offered by the incumbent utility. Currently, no customer of the Virginia members has elected an alternative supplier, no current customer exceeds 90 MW load, and most of the members offer a 100% renewable supply option, limiting cooperative's exposure.

The WPC maintains an exception provision for each member that includes hydroelectric power allocated to the member from SEPA (if any), and the flexibility to procure power from alternative providers up to the greater of 5% of the member's demand and associated energy, or 5 MW and associated energy. As of Dec. 31, 2019, members were receiving in aggregate 108 MWs of capacity out of a possible 178 MWs pursuant to the procurement option, or roughly 3.7% of 2019 peak demand. While members receive a credit for alternative power supply on ODEC's demand charges, the demand credit for alternative power supply will terminate as of Dec. 31, 2024.

ODEC typically generates a modest amount of non-member revenue from the sale of excess energy, but amounts have consistently averaged less than 5% of total revenue.

Regulated But Flexible Rate Setting

Rate flexibility at ODEC is strong. The cooperative's cost-based formula rate is subject to approval by FERC. However, despite this oversight, the ability of the cooperative to collect revenues sufficient to meet its obligations has not been compromised. FERC's formula rate includes demand and energy charges that allow ODEC to collect revenues to meet all expenses, including financial obligations, plus added coverage of interest charges and board-approved equity contributions. ODEC's current formula rate became effective Jan. 1, 2014 and received final approval from FERC on March 22, 2018. As required by the WPC, the formula rate must be reviewed by the board at least every three years.

Energy rates, including fuel and purchased power, are adjusted regularly. Differences in actual costs versus projected energy costs are recorded and managed through the cooperative's deferred energy balance. Most recently, ODEC implemented a 16.2% energy rate decrease effective Jan. 1, 2020 to address the differences. The large decrease in the 2020 energy rate in part reflects the economic replacement of an expiring long-term purchased power agreement on May 31, 2020.

Similarly demand charges, including purchased capacity, depreciation, transmission, interest, and margin requirement are regularly adjusted. ODEC further utilizes a margin stabilization adjustment to ensure a minimum net margin is achieved. The margin stabilization adjustment is recorded at the end of each fiscal quarter with any over or under collection typically returned or collected in the following year. Given the inherent flexibility in ODEC's rate structure and supportive oversight by FERC, the limitations in the cooperative's rate setting does not constrain Fitch's assessment of revenue defensibility.

Strong Purchaser Credit Quality

Fitch has assessed ODEC's purchaser credit quality as strong using its purchaser credit index (PCI). ODEC's membership includes 11 distribution cooperatives, but the assessment is based on Fitch's review of the three largest: Rappahannock Electric Cooperative (REC), Shenandoah Valley Electric Cooperative (SVEC) and Delaware Electric Cooperative (DEC). Together they account for roughly 63.3% of ODEC's 2019 total revenue.

Fitch's calculated PCI score of 2.21 reflects the generally very strong ability of the systems to absorb rate increases from ODEC. Average annual customer growth for the three systems has ranged from 1.0% to 2.7%, and demographics within the largest counties served by each system suggest household income that meets or exceeds the national average. Regional unemployment rates are in many cases well below the national average, further supporting demand and flexibility.

Rate flexibility, as well as prevailing rate regulation in Virginia, is also factored in the assessment. Retail rates at SVEC and DEC approximate state average (96% to 104%), while rates at REC are slightly higher than the state average (118%). However, residential electric costs are deemed to be very affordable (2.3% to 2.7% of household income) for all three systems.

These very strong characteristics are offset somewhat by midrange net margin and cash cushion assessments, and manageable leverage. Ratios for cash on hand and net margins among the members have typically approximated 60 days, with available borrowing facilities providing ancillary liquidity as well. All of the systems are active borrowers but maintain leverage ratios consistent with the assessment. Favorably, the members' retail customer base is well-diversified as no single user accounted for more than 4% of any members' total load requirements for 2019.

OPERATING RISK

ODEC's operating cost burden is assessed as low reflecting operating costs that have consistently ranged between 6.0 and 7.0 cents/kWh since 2015. The Fitch-calculated cost includes all operating costs related to ODEC's owned assets, including depreciation, as well as expenses for purchased power. The low operating cost burden further reflects the reasonably strong operating performance at the PJM Interconnection, LLC (PJM) energy markets. The variability in ODEC's cost burden reflects, to some degree, the cooperative's historical reliance on purchased power, which provided 43.7% of the cooperative's energy requirements in 2019.

As a member in the PJM regional transmission organization, ODEC participates in its energy and capacity markets. ODEC's PJM capacity requirements are met primarily (93%) through its owned generating facilities. The remainder of its capacity obligation is obtained through purchased capacity contracts and the PJM capacity auction ensuring adequacy of resources to meet member requirements.

Operating Cost Flexibility

ODEC's operating cost flexibility is neutral given the diversity, balance and flexibility of its resource portfolio. The cooperative's principal generating resources include its ownership interests in the North Anna nuclear facility and the Clover coal-fired unit, as well as its most recent addition, the Wildcat Point facility. Wildcat Point, a combined cycle natural gas-fired facility, entered commercial operation in April 2018. At 973 MW, Wildcat Point is ODEC's largest resource. Other owned resources include the Louisa and Marsh Run facilities, which comprise eight natural gas-fired combustion turbines. Together these resources provide ODEC with 2,665 MW of generating capacity.

The fuel mix of ODEC's resource portfolio remains reasonably diverse. The addition of Wildcat Point increases ODEC's reliance on natural gas-fired capacity to roughly 69%, but the cooperative's interests in North Anna and Clover add both nuclear (8%) and coal (16%) capacity to its mix. On an energy basis, ODEC's is more diversified, with natural gas, nuclear, coal and purchased power accounting for 37%, 14%, 5% and 38%, respectively for 2019. Renewables represented another 6% of energy requirements, and an increasing number of renewable energy contracts should diversify resources further over time.

ODEC's reliance on non-renewable purchased energy has meaningfully declined from 57% in 2017 to 38% in 2019 with the completion of Wildcat Point. Nonetheless, ODEC's risk management policies are expected to remain unchanged such that increasing amounts of anticipated energy needs must be hedged ranging from 50%-65% of needs three years out to 70%-100% of needs in the next calendar year. Hedged needs include those covered by the cooperative's owned resources, including its natural gas facilities if gas pricing is hedged, and those covered by fixed-price contracts and forward contracts.

Capital Planning and Management

ODEC's capital spending program has been robust in recent years, reflecting the construction and completion of Wildcat Point. For the period 2015 to 2017, ODEC's ratio of capital expenditures to depreciation averaged more than 500%, but with completion of the Wildcat Point facility it has notably declined to an average of 56% for 2018 and 2019. The cooperative's average age of plant is also improved from 18 years (2015) to 14 years (2019). Investment over the near term will moderate considerably to approximately $52.8 million per annum, down from a high of $373.5 million in 2015. Primary among the expenditures are those related to the North Anna license extension. ODEC expects that borrowing capacity under its revolving credit facility will be adequate to meet funding requirements.

FINANCIAL PROFILE

ODEC's financial performance has improved in recent years as the cooperative exited the higher expenditure Wildcat Point investment cycle. Historical leverage as measured by net adjusted debt to adjusted FADS using Fitch's methodology rose temporarily in 2015-2016 before declining through 2019 to the current levels consistent with the higher rating. Borrowings related to Wildcat Point construction pushed debt higher to $1.3 billion in 2017 from $835 million in 2014, and drove ODEC's leverage ratio over 9.5x in 2016. In the subsequent years, operating income and FADS improved, as purchased power costs moderated and depreciation expense related to Wildcat Point rose. Coupled with a gradual decline in long-term debt outstanding, the leverage ratio improved to 7.6x in 2019. Fitch's metrics exclude the effect of deferred revenue in 2017 and 2018.

Liquidity is assessed as weaker reflecting ODEC's very limited cash on hand (3 days) but does not constrain the cooperative's overall financial profile assessment as broader liquidity metrics - including available borrowings under a revolving credit facility - remain strong. Coverage of full obligations has solidly ranged between 1.19x and 1.42x since 2015, and totaled 1.32x in 2019. Moreover, ODEC's total liquidity exceeded 207 days in fiscal 2019, including borrowing capacity under its $500 million revolving credit facility.

Fitch Base Case and Stress Case Scenario Analysis

ODEC's operating performance improves through Fitch's scenario analysis. Fitch's base case reflects assumptions that are informed by ODEC's YTD 2020 performance and the cooperative's 10-year financial forecast. Assumptions include 1.9% annual growth in energy sales (post-2020 COVID) and limited wholesale rate changes (primarily adjustments in the energy rate). Capital expenditures are expected to moderate following the completion of Wildcat Point and approximate $34 million to $89 million per annum through 2024, in line with the prior year projection. The base case results indicate stable coverage of full obligations of at least 1.4x and a leverage ratio that hovers at 8x or lower for the five-year forward period. Cash on hand is expected to remain very low, but is factored in the analysis. ODEC's net margins are maintained sufficient to provide 1.20 TIER and the cooperative has the ability to utilize its margin stabilization adjustment to support adequate margin levels.

The results of Fitch's stress case do not deviate meaningfully from the base case as ODEC's rate formula allows the cooperative to adjust rates and/or revenues to members to fully recover costs of service. Fitch's stress case moderately reduces demand (9% sales reduction through forward YR2) followed by a rebound in sales through 2024. The analytical impact of Fitch's stress case could be addressed via a modest revenue adjustment (1%) in fiscal 2021. ODEC could also utilize available borrowings under its revolver to address the temporary liquidity requirement. Leverage would remain largely consistent with the base case, and approximate 7.8x to 8x through 2024, adequate for the higher rating level. Coverage of full obligations would remain at about 1.4x and cash on hand balances are projected to remain low (3 days or less), as the cooperative historically relies on its external resources for liquidity purposes.

Debt Profile

ODEC's debt profile is neutral to the rating. The cooperative's long-term debt is all fixed-rate and amortizes through 2053. All of ODEC's $1.1 billion of outstanding long-term debt is secured under its Indenture and includes both publicly held and privately placed debt.

ODEC also utilizes a revolving credit facility to manage short- to medium-term liquidity and funding requirements. At year-end 2019, $67.2 million in short-term debt was outstanding, under the cooperative's revolving credit facility. The unsecured, committed revolving credit facility is syndicated among a group of lenders and is available for borrowings up to $500 million through March 3, 2022; declining to $400 million through Feb. 28, 2025. As of Sept. 30, 2020, ODEC had no borrowings outstanding under this facility.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Old Dominion Electric Cooperative (VA)	LT IDR	A+ Rating Outlook Stable	Upgr ade	A Ratin Outlool Positive
Old Dominion Electric Cooperative (VA) /Senior Secured Obligation/1 LT	LT	A+ Rating Outlook Stable	Upgr ade	A Ratin Outlool Positive

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 30 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).