



How Sustainability Impacts Your Credit Rating

Credit Rating Factors

Agenda

- Sustainability defined
- Global warming debate
- Southeast power supply uncertainty 2010-2020
- Difficult energy decisions considering sustainability focus could impact credit ratings
- MEAG Power and Georgia Municipal Electric Utility Credit Ratings

Sustainability Defined

The Wikipedia definition: sustainability is the potential for long-term maintenance of wellbeing, which in turn depends on the wellbeing of the natural world and the responsible use of natural resources.

Sustainability has become a wide-ranging term that can be applied locally and on a global scale. As the earth's human population has increased, natural ecosystems have declined and changes in the balance of natural cycles has had a negative impact on both humans and other living systems.

A Consensus on Global Warming Appears To Be Developing- That The Issue is Real and Something Needs to Be Done to Enhance Sustainability



Climate Change:

Since 1979 it is estimated 20% of the Polar Ice Cap has melted away-how much should we be concerned?



The Causes of Climate Change : Is it Human Activity or Natural Events?



Will We Go Too Far And Adversely Impact An Already Weak Economy?



One Response: Waxman Markey Climate Change Bill

- Legislation that had been viewed as the consensus legislation to address the issue, passed the U.S. House of Representatives but was stopped in Senate, when the cost estimates of impact became widely known
- It would have established a market-based driven cap and trade system to price carbon
- Established goal of reducing greenhouse gas emissions produced by US - 50% by 2025

Assessment of Some of the Impacts of Pricing Carbon

- “Electricity prices were projected by the EPA to increase 44% by 2030 EPA assessment of legislation 2009. Other estimates were higher increases and more immediate.
- Existing coal plants would be expected in the EPA model to no longer be economic to run indicating the use of fossil fuel would peak in 2010
- In the EPA economic analysis core scenarios, nuclear generation would have to increase 150% from 2005 levels.

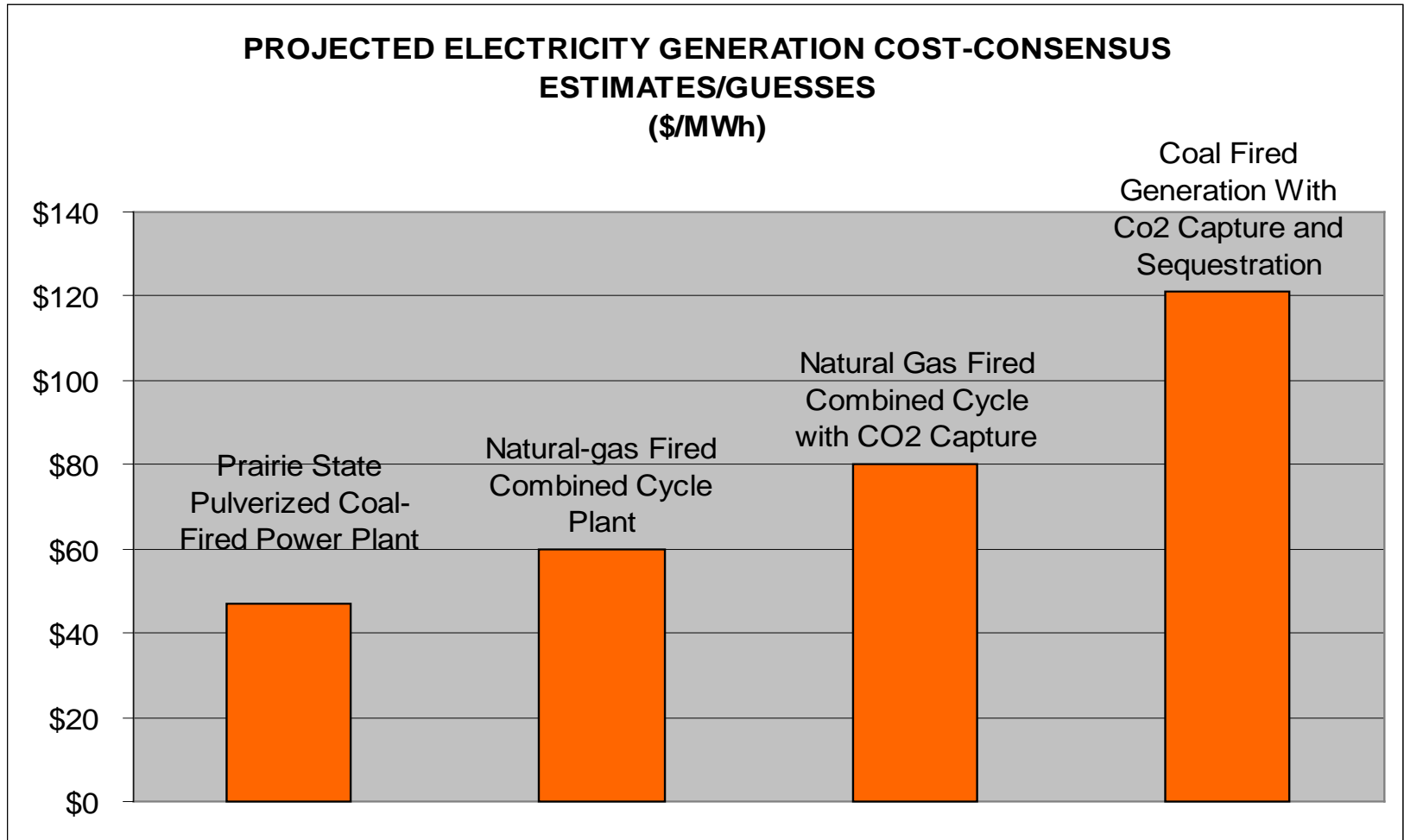
Industry Response: Across U.S. New Coal-fired Generation Plants Have Been Canceled in the Past Several Years

- Construction of over 100 coal-fired power plants have been canceled in the U.S. since 2007
- In the southeast, Santee Cooper for example suspended its 625 MW Pee Dee coal-fired generation project in South Carolina
- In Florida, the Florida Municipal Power Agency's Taylor Energy Center was canceled
- No new coal-fired units have been permitted in 2010

Capture Carbon?

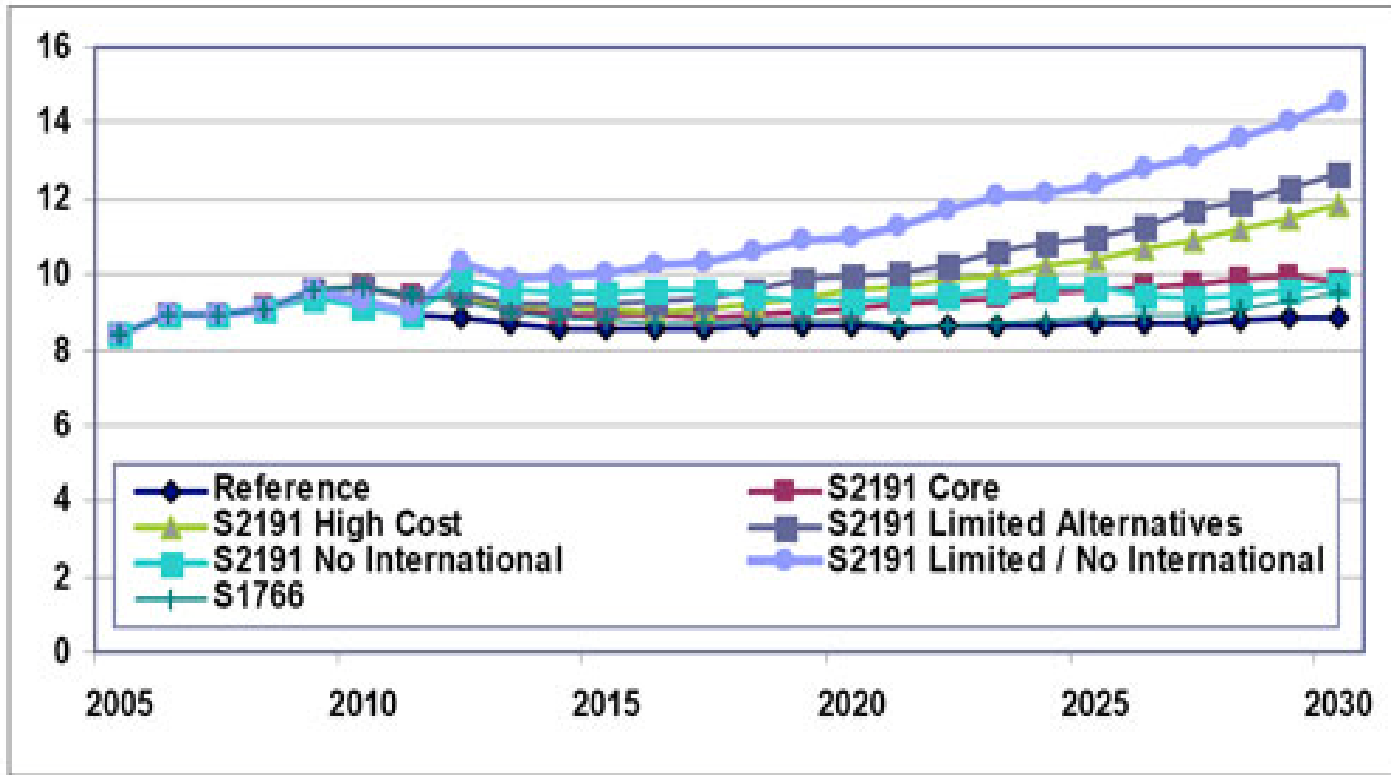
- There is no commercially acceptable technology available to capture, deliver then sequester CO₂.
- Most engineers believe that there is a solution but that solution will take possibly a decade or more to achieve.
- A carbon tax and a cap-and-trade market may not get the required resources to make the necessary investments to come up with the technology.

Numerous Estimates All Predict Much Higher Costs (EEI, MIT and NETL) For Co2 Capture



Energy Information Administration Forecast: April 2008

Figure 16: Electricity Prices
(2006 cents per kilowatthours)

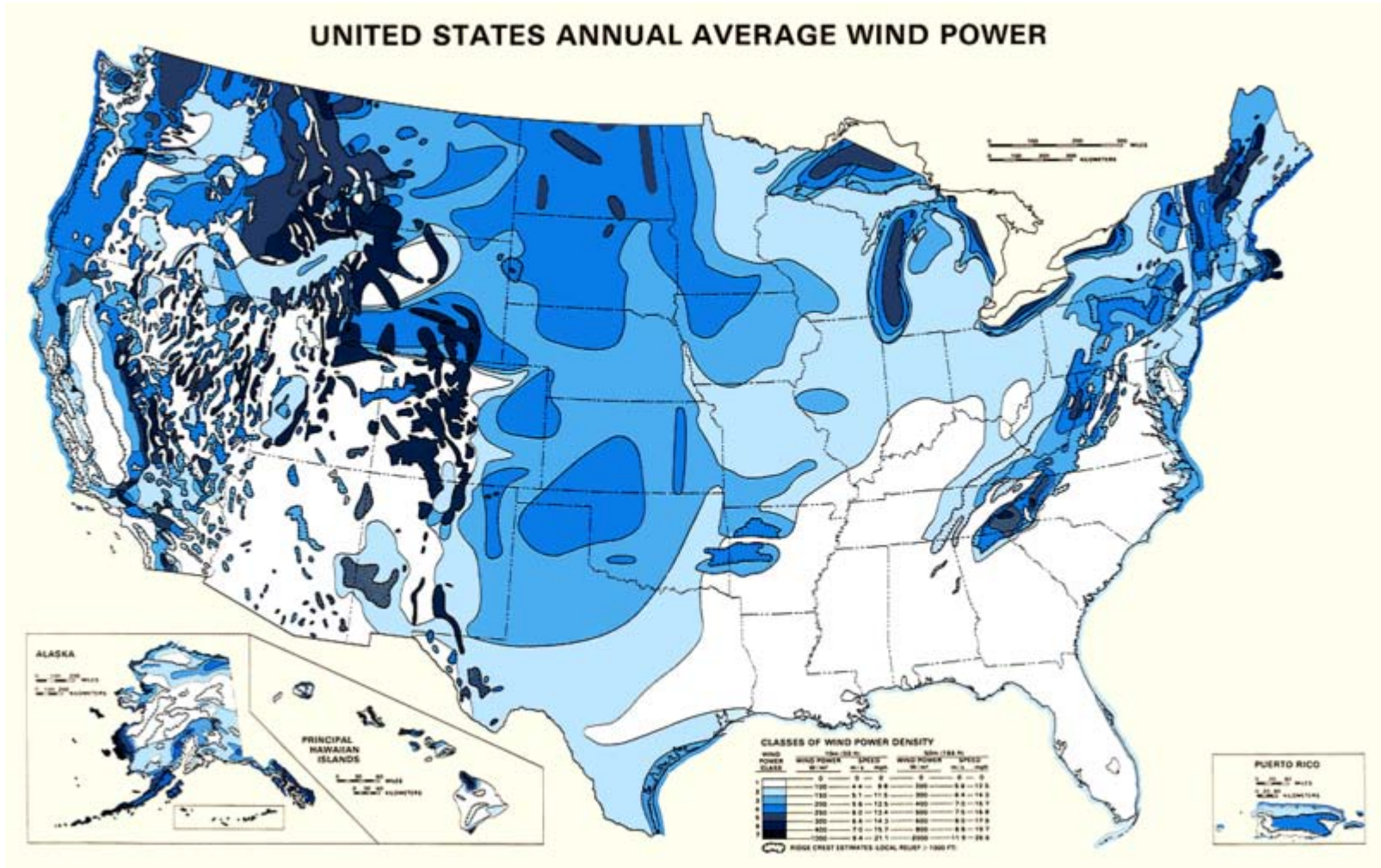


Source: National Energy Modeling System runs AEO2008.D030208F, S2191.D031708A, S2191HC.D031708A, S2191BIV.D031608A, S2191NOINT.D032508A, S2191BIVNOL.D033108A and S1766_08.D031508A.

State of Georgia has Major Challenge If Coal Generation is Not in The Resource Mix

- Over 60% of resource mix is coal-fired generation EIA 2008
- Renewable energy is only 3%
- Limited wind, solar and hydro potential

For Example: Renewable Energy Potential ?



Southeast Power Supply Uncertainty 2010-2020

- Load forecast reflects continued SERC demand growth
- Natural gas availability and price uncertainty
- Limited potential of renewable today but maybe technological advancement
- Wide ranging and unpredictable CO2 debate

SERC Region Demand Forecast

- 2007 Summer demand : 202,103 MW
- 2016 Summer demand: 239,406 MW
- 1.9% compound annual growth rate for next 10 years

Source: NERC 2007 Long Term Reliability Assessment

One Certainty: Nuclear Power Expansion

Positive

- *Past strong safety and operating performance record
- *Current economics
- * Non-carbon



Nuclear Expansion Implications

CHALLENGES

- *Regulatory process
- *Global price inflation on construction costs
- * Technological advancement risk
- * Storage

Vogtle Nuclear Units 3 and 4 Expansion Credit Implications

Is the Past Prologue?

- Sound Vogtle Units 1 and 2 operating and safety records
- Units 1 and 2 have provided diversity to MEAG Power participants fuel mix
- Despite initial construction cost uncertainty, long term costs have factored into MEAG Power's competitive prices

Vogtle Nuclear Units 3 and 4 Expansion Credit Implications

Other Positive Considerations:

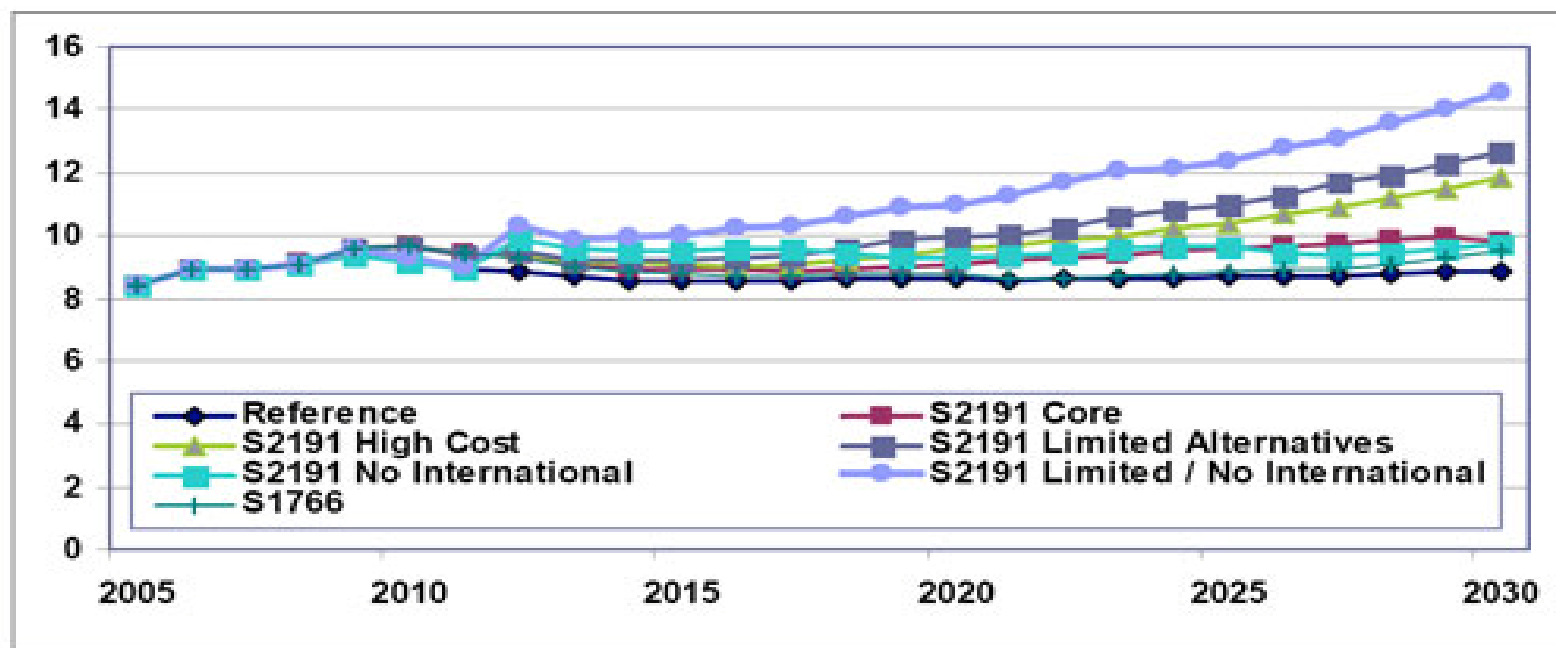
- No carbon
- Common facilities and existing site
- New and improved design and regulatory process should avoid delays of past
- Deregulated wholesale market and MEAG Power's relationship with The Energy Authority

Sustainability and Credit Ratings

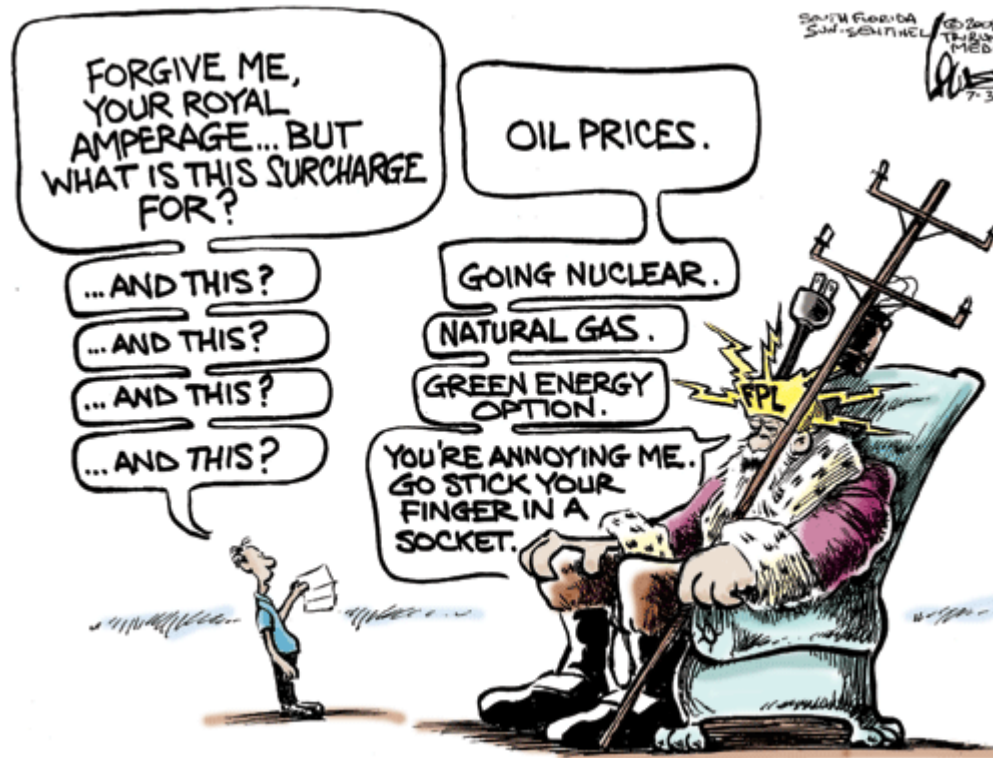
- Climate Change Debate to Improve Sustainability Objective Has Consensus But At What Cost
- With the Southeast U.S. Demand Expected to Increase the Choices for New Generation are Difficult
- All Estimates Suggest That Eliminating Coal-Fired Generation Will Be Expensive
- Will Customer Intolerance for Rate Increases Effect Financial Metrics of Municipal Electric Utilities?
- Will Political Risk Impact the Rate Process

When Will Customer Rate Tolerance Impact Financial Soundness?

Figure 16: Electricity Prices
(2006 cents per kilowatthours)



Source: National Energy Modeling System runs AEO2008.D030208F, S2191.D031708A, S2191HC.D031708A, S2191BIV.D031608A, S2191NOINT.D032508A, S2191BIVNOL.d033108A and S1766_08.D031508A.



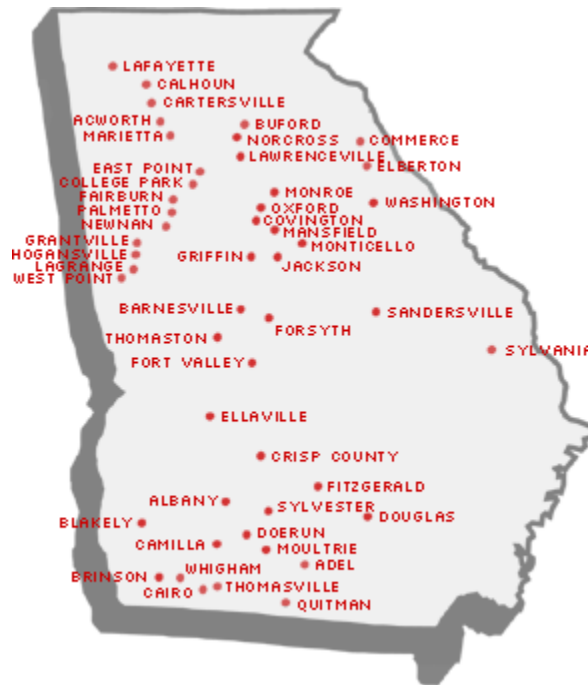
Important Aspects of Municipal Electric Utility Credit Quality Include:

- Self-governance and the monopoly provider of an essential service
- Cost competitive and reliable service
- Local control and responsiveness to customer
- Stable financial results and sound debt service coverage ratios

Is this in jeopardy?

Georgia Municipal Electric Utilities and MEAG Power

- *Importance of getting cost structure in place to ensure utility can reliably meet rising costs
- *Any improvement in credit quality of municipal utilities could impact positively on MEAG Power's rating



MEAG POWER SENIOR RATING IS A1

STRENGTHS

- Strong financial liquidity
- Strong consensus of MEAG Power participants in the 50-year power supply contracts
- MEAG Power's generation projects have had strong performance records
- Strong participant take-or-pay power supply contracts

Challenges

- Retail rates of several Georgia municipal electric utilities are above average
- 40% of generation from nuclear which includes storage and decommissioning risks
- Major capital program for construction of new generation
- Uncertainty about greenhouse gas emissions regulations

Questions?



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