Plant Vogtle Federal Loan Guarantees: Credit Ratings

October 2013

Unlike personal credit scores that indicate how likely individuals are to repay a loan by looking at our history, when financial institutions assign a credit rating to a corporation (or to specific bonds corporations issue), they are assessing how likely the company will be able to return an investor's capital by looking at the future.

Credit rating agencies like Moody's Investors Service, Fitch Ratings, or Standard and Poor's analyze a corporation's position in the market, cash flow to debt ratio, debt leverage, management profiles, profitability compared to its peer group, various industry factors, and more before assigning a rating.[1] As a result of such scrutiny, investors can better assess the prospects of a project's potential success or failure.

A loan guarantee is a promise by the DOE to a lender that the federal government will fully cover any default or debt that a borrower incurs. Like a parent co-signing an auto loan, the DOE essentially co-signs a huge loan for a selected company. Unlike a normal loan, however, if the company defaults under the DOE loan guarantee program, the U.S. treasury doesn't necessarily have the first right, or *lien*, to recoup taxpayer money by seizing the company's assets. That means taxpayers could lose big.

A company's credit rating will benefit from a DOE loan guarantee because their credit is then covered by the full faith and credit of the United States government. The better rating only means, however, that it's safer for other private investors to lend to that company, and not that it's any less risky for taxpayers. It is imperative, therefore, that the DOE closely examine a thorough and current credit rating of a company before issuing a final loan guarantee.

The DOE is considering finalizing $8.33 billion worth in loan guarantees to the co-owners of Plant Vogtle for the construction of two nuclear reactors in Georgia. Since construction on the project began, it has experienced substantial cost overruns and schedule delays. As a result, each of the project partners have had their credit rating downgraded or their outlook changed to 'Negative' (implying a possible downgrade to come). Meanwhile, Southern Company, the parent company of the project's largest owner, has been recording losses over $1 billion due to mismanagement of another project in Kemper County, Mississippi. If the DOE finalizes the loan guarantee offer for Plant Vogtle reactors 3&4, taxpayers will be on the hook for a massive project with questionable finances.

Below are the credit ratings of the Plant Vogtle partnering companies and recent commentary from top investment firms regarding their stocks.

Finance Ratings of Vogtle Companies[2]

	Southern Company	Georgia Power	Oglethorpe	MEAG (M,P,J bonds)
Moody's				
Credit Rating	Baa1 **(downgrade)**	A3 **(downgrade)**	Baa2 **(downgrade)**	A2, Baa2, A2
Effective Date	8/12/2010	8/12/2010	10/19/2010	9/11/2012
Outlook	Stable	Stable	Stable	**Negative**
Effective Date	8/12/2010	8/12/2010	10/19/2010	9/11/2012
Standard and Poor's				
Credit Rating	A	A	A	A+, A-, A+
Effective Date	1/1/1997	12/1/2000	11/15/1997	3/8/2010
Outlook	**Negative**	**Negative**	Stable	Stable
Effective Date	5/24/2013	5/24/2013	-	-
Fitch				
Credit Rating	A	A	A	A+, A-, A+
Effective/Last Affirmed Date	8/6/2013	8/6/2013	12/23/1997	1/3/2013
Outlook	Stable	Stable	**Negative**	Stable
Effective/Last Affirmed Date	12/22/2010	12/22/2010	8/5/2013	1/3/2013
Jeffries LLC				
Investment Rating	'Buy' to 'Hold'			
Effective Date	6/17/2013			
Goldman Sachs				
Investment Rating	'Hold' to 'Sell'			
Effective Date	4/24/2013			
Zack's				
Investment Rating	'Hold' to 'Sell'			
Effective Date	6/20/2013			
				Current as of 19 February 2014

[1] Standard & Poor's. "A Closer Look at Industrials Ratings Methodology." 13 Nov. 2006.
[2] All information from the ratings agencies is available by searching the companies' names at https://www.moodys.com/, http://www.standardandpoors.com/home/en/us, and http://www.fitchratings.com/.