MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Big Rivers Electric Corporation senior secured rating to Baa2; outlook is stable

03 Oct 2022

Approximately $83.3 million of notes affected

New York, October 03, 2022 -- Moody's Investors Service ("Moody's") today upgraded the rating of Big Rivers Electric Corporation (BREC)'s $83.3 million senior secured 10-year term loan, due 2030 to Baa2 from Baa3. The rating outlook is stable.

RATINGS RATIONALE

The upgrade to Baa2 principally reflects the cooperative's continually improving financial profile and cash flow credit metrics. During the three-year period ending FY 2021, BREC achieved a funds from operations (FFO) coverage of interest expense of 3.0x, FFO to debt ratio of 9.1% and debt service coverage ratio (DSCR) of 1.7x, based on Moody's standard adjustments. These credit metrics strongly position BREC within the Baa rating category and reflects Moody's expectation that BREC will likely continue to record similar cash flow metrics in 2022 and beyond. The improved cash flow profile is somewhat dampened by BREC's continued large regulatory asset balance related to the early retirement of its coal power plants. Despite several years of reducing the balance, including an accelerated write-down in FY 2021, BREC had a net balance of approximately $362 million at FYE 2021.

The upgrade further acknowledges the continued credit supportive regulatory treatment from the Kentucky Public Service Commission (KPSC), the execution of strategies by management to better align its power supply capacity with its changing load profile, ongoing efforts to reduce carbon emissions, and the successful management of its upcoming debt maturities and maintenance of sound liquidity.

Big River's status as a rate regulated electric generation and transmission (G&T) cooperative represents a unique risk relative to its G&T cooperative peers. However, this risk continues to be mitigated by a history of credit supportive decisions from the KPSC, including the KPSC's approval of rate recovery for BREC's regulatory assets. Also, unlike its G&T peers, Big Rivers remains highly dependent upon sales and revenues from large load industrial customers, whose financial performance can be affected by global economic trends that can be difficult for the customer and BREC to manage. These considerations are mitigated by BREC's financial performance which is stronger than other similarly rated G&T cooperatives.

The rating action recognizes the significant progress made by management to create a better balance between its available generation capacity and its load profile. This has been achieved by retiring certain legacy coal generating assets and entering into several long-term power supply contracts with industrial loads to shore up demand, benefitting from the strong economic growth expected in the western Kentucky region. Among the most meaningful of these supply contracts include a full-requirements power supply contract with Nucor Steel, owned by Nucor Corporation (Baa1 Stable), which is constructing a $1.5 billion steel plate manufacturing mill within its member (Meade County Rural Electric Cooperative) service territory, with the contact taking effect in 2023. BREC also has secured a 20-year power agreement with Blockware, a crypto currency mining company for its new crypto currency facility in Paducah, KY. BREC is expected to benefit from additional industrial load from a new $500 million paper mill being constructed by Pratt Paper within the Kenergy member service territory. These load supply agreements are in addition to approximately 340 MW of previously arranged power sales contracts to wheel power to two municipal entities in Kentucky, and for financially settled power sales agreements with three Nebraska entities.

The upgrade also acknowledges measures taken by BREC to reduce carbon emissions with the retirement of its coal units and the increase in supply diversity. BREC targets the reduction of carbon emissions by 70% in its supply stack by 2030, with the retirement of approximately 508 MW in coal-fired electric generation, the conversion of the Robert Green coal plant to a natural gas plant, and the termination of an operating agreement with Henderson Municipal Power & Light, KY(A3 stable) which eliminated 187 MW of additional coal capacity. BREC will also phase in nearly 260 MW of solar capacity pursuant to several third-party power purchase agreements in the near term.

Big Rivers maintains sufficient levels of liquidity by supplementing its internally generated cash flow with a $150 million syndicated senior secured credit facility with six financial institutions, led by National Rural Utilities Cooperative Finance Corporation (CFC: A2 stable). The revolving credit agreement expires in June 2024, but has the option for a one-year extension of the expiration date subject to lender approval. As of June 30, 2022, BREC had $114 million available under the CFC credit agreement and had cash and cash equivalent investment balance of about $70 million.

Big Rivers is likely to have some moderate need for new debt financing in the near term to meet capital expenditure related mainly to transmission upgrades, while also needing to meet the scheduled debt maturity of its RUS 2009 Series B Note due in December 2023. The company is expected to repay approximately half of this $245.5 million Series B Note with cash flow this year, while it intends to refinance the remaining amounts with the RUS during 2022.

RATING OUTLOOK

The stable rating outlook reflects a prevailing credit supportive regulatory environment, including ongoing support for regulatory asset cost recovery, improved power supply and demand balance, reduced reliance on coal generation, and the likelihood that Big Rivers can sustain its credit metrics at levels similar to recent financial performance.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

What Could Change the Rating - Up

Continued recovery of and reduction in its sizable regulatory assets and maintaining stronger metrics to balance unique business and financial risks. For example, in terms of its credit metrics, an upgrade could be considered should FFO coverage of interest and FFO to debt achieves levels greater than 3.0x and in a range of 10% or better, respectively, with the DSC ratio tracking at close to 1.5x or better on a sustained basis.

What Could Change the Rating - Down

A negative rating action could result if there was a shift to a less credit supportive regulatory environment in Kentucky, if liquidity unexpectedly deteriorates, or if BREC were to lose key high load industrial customers. Negative rating pressure would also increase if substantial assurance for recovery of sizable regulatory assets do not occur over time as defined under recent KPSC regulatory orders.

From a financial perspective, the rating could be pressured if BREC's FFO to debt and DSC ratios fall below 6% and 1.2x, respectively, on a sustained basis.

PROFILE

Big Rivers Electric Corporation is an electric generation and transmission cooperative headquartered in Henderson, Kentucky and owned by its three-member system distribution cooperatives - Jackson Purchase Energy Corporation; Kenergy Corporation; and Meade County Rural Electric Cooperative Corporation. These member system cooperatives provide retail electric power and energy to approximately 121,000 residential, commercial, and industrial customers in 22 Western Kentucky counties.

The principal methodology used in this rating was US Electric Generation & Transmission Cooperatives Methodology published in November 2021 and available at https://ratings.moodys.com/api/rmc-documents/357105. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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