Before the

Georgia Public Service Commission

In the Matter of	**)**	
	)	
Georgia Power Company's 2022 Rate Case	**)**	**Docket No. 44280**
	)	

Testimony

of

Kevin O'Donnell

On Behalf of

Georgia Public Service Commission Staff

PUBLIC DISCLOSURE

October 20, 2022

TABLE OF CONTENTS

I. INTRODUCTION 1

II. CURRENT GEORGIA POWER CREDIT RATING 3

III. CREDIT RATING METHODOLOGY 6

A. Regulatory Framework 7

B. Ability to Recovery Costs and Earn Return 9

C. Diversification 9

D. Financial Metrics 10

IV. MOST RECENT CHANGES IN GEORGIA POWER CREDIT RATINGS 16

V. COST OF CAPITAL TO CONSUMERS NOT LIMITED TO HIGHER INTEREST COSTS FROM CREDIT RATING CHANGES 19

VI. SUMMARY OF RECOMMENDATIONS 27

DIRECT TESTIMONY OF KEVIN W. O'DONNELL, CFA

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants, Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina 27511.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am testifying on behalf of the Georgia Public Service Commission Public Interest Advocacy Staff ("PIA Staff" or "Staff").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND RELEVANT EMPLOYMENT EXPERIENCE.

A. I have a Bachelor of Science in Civil Engineering from North Carolina State University and a Master of Business Administration from Florida State University. I earned the designation of Chartered Financial Analyst (CFA) in 1988. I have worked in utility regulation since September 1984, when I joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left the NCUC Public Staff in 1991 and have worked continuously in utility consulting since that time, first with Booth & Associates, Inc. (until 1994), then as Director of Retail Rates for the North Carolina Electric Membership Corporation (1994-1995), and since then in my own consulting firm.

I have been accepted as an expert witness on the subjects of rate of return, cost of capital, capital structure, credit matters, cost of service, and other regulatory issues, in general rate cases, fuel cost proceedings, and other proceedings before the NCUC, the South Carolina Public Service Commission, the Wisconsin Public Service Commission, the Virginia State Commerce Commission, the Minnesota Public Service Commission, the New Jersey Board of Public Utilities, the Colorado Public Utilities Commission, the District of Columbia Public Service Commission,

the California Public Utilities Commission, the New Mexico Public Regulation Commission, the Maryland Public Service Commission, and the Florida Public Service Commission. In 1996, I testified before the U.S. House of Representatives' Committee on Commerce and Subcommittee on Energy and Power, concerning competition within the electric utility industry. Additional details regarding my education and work experience are set forth in Appendix A to my direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to review credit ratings and the associated impact on Georgia Power investors and customers.

Q. PLEASE SUMMARIZE THE CONCLUSIONS OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING.

A. My findings in this proceeding are as follows:

1. Georgia Power's bond rating is stable and is currently under no threat of a downgrade;
2. While Georgia Power's credit rating has been downgraded over the past several years, the primary reasons for the downgrade are the construction delays and cost overruns at the Vogtle Units 3&4;
3. With the completion of Vogtle Units 3&4 Georgia Power's cash flows and credit metrics will improve significantly and provide additional support to Georgia Power's credit rating.
4. The Commission has awarded returns on equity (ROE) and equity ratio higher than the national average in the past. However, the higher returns awarded by the Commission have not prevented Georgia Power's bond rating from being downgraded. The continuous delays and cost overruns on Vogtle Units 3&4 have been the primary cause for the bond rating downgrades;

5. Mr. Fetter's testimony in this proceeding is incomplete because it does not compare the cost to consumers of paying an unnecessarily high allowed rate of return to the much smaller increase from higher interest costs associated with a *potential* negative credit action;
6. Staff Witness Mike Gorman's recommended ROE and capital structure will provide Georgia Power the necessary revenues and cash flows to support investment grade credit rating. I recommend the Commission award an ROE and capital structure consistent with Mr. Gorman testimony.

II. CURRENT GEORGIA POWER CREDIT RATING

Q. WHAT ARE THE CURRENT BOND RATINGS OF GEORGIA POWER FROM S&P AND MOODY'S?

A. At the present time, the credit ratings and associated outlooks are as follows:

Table 1: Georgia Power Credit Ratings

	S&P	Moody's
Current Ratings	BBB+	Baa1
Outlook	Stable	Stable

As can be seen in Table 1, Moody's and S&P have Georgia Power at the equivalent credit rating. However, as noted in the testimony of Company Witness Fetter, Fitch, which is a third credit rating agency, has Georgia Power at a BBB level.[1] All of these ratings are at investment grade rates and all are currently "stable" ratings.[2]

Q. HOW DO THESE BOND RATINGS COMPARE TO OTHER RATINGS AVAILABLE FROM MOODY'S AND S&P?

[1] Fetter Prefiled Direct Testimony, p. 4, l. 26 to p. 5, l. 3.

[2] Id

A. In Table 2 below, I have provided the list of available investment grade credit ratings from Moody's and S&P.

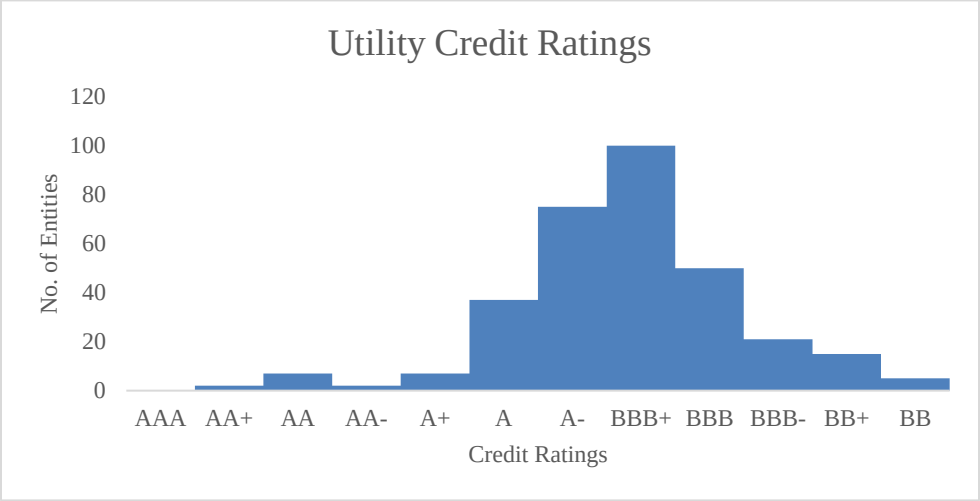
Table 2: Moody's and S&P Ratings for Long-Term Debt[3]

Moody's	S&P and Fitch
Long term	**Long term**
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA−
A1	A+
A2	A
A3	A−
Baa1	BBB+
Baa2	BBB
Baa3	BBB−

Georgia Power's credit rating is well within the bounds of investment grade status. Georgia Power's credit rating is similar to most investor owned utilities across the country. Very few investor-owned utilities have AA or AAA credit rating. Chart 1 below provides the utility credit ratings by the number of utilities per rating.

[3]Fetter prefiled direct testimony, p. 12.

Chart 1: Utility Credit Ratings



Source: Data estimated from S&P Ratings Direct Chart sent to Nova Energy Consultants on on Sept. 28, 2022

As can be seen in the above chart, most utilities are in the A-, BBB+, and BBB range.

Table 3 below provides a comparison of the credit ratings of nearby utility operating companies:

Table 3: Georgia Power Comparison to Southeast Electric Utilities

Utility	Moodys	S&P
Duke Energy Carolinas	A2	BBB+
Florida Power & Light	A1	A
Georgia Power	Baa1	BBB+
Alabama Power	A1	A-
Mississippi Power	Baa1	BBB+

As can be seen in Table 3 Georgia Power's credit rating is similar to other southeast electric utilities.

III. CREDIT RATING METHODOLOGY

Q. HOW ARE CREDIT RATINGS USED IN THE CAPITAL MARKETS?

A. Credit ratings reflect the rating agency's *opinion* of a utility's financial strength and ability to service its debt under different market conditions over time. Fixed income (bond) investors include credit ratings along with many other factors in their assessment of whether to buy, continue to hold or sell bonds issued by utilities. As such, depending on the credit rating determined appropriate by the credit rating agencies, bond investors may require higher or lower rates of interest to compensate for the level of risk implied by a given credit rating all else equal.

Q. PLEASE EXPLAIN THE IMPLICATION OF A CHANGE IN THE CREDIT RATING OF A PUBLIC UTILITY.

A. Companies are downgraded and upgraded by the credit agencies as the financial condition of a company changes and to take into account economic and financial markets changes as well. Being downgraded does not imply a company cannot access the capital markets. A downgrade implies that the bond rating agency has determined the risk of owning debt securities of the affected company has risen. All else equal, investors would require a higher return for purchasing a company's debt. Conversely, being upgraded implies that the affected company's financial condition has improved and therefore investors would require a lower rate of interest on a company's debt securities.

Q. PLEASE DESCRIBE THE FACTORS THAT A CREDIT RATING AGENCY CONSIDERS WHEN ASSESSING THE CREDITWORTHINESS OF A COMPANY.

A. Moody's uses four criteria as the bases for its rating methodology. This criteria and associated weightings are in Table 4 below.

Table 4: Moody's Credit Ratings Factors

Rating Factors	Weighting of Rating Factors
Regulatory Framework	25%
Ability to Recover Costs and Earn Return	25%
Diversification	10%
Financial Metrics	40%
Total	100%

As can be seen in the above rating factors, Moody's takes a holistic approach to analyzing a utility credit rating. It should be noted that Georgia Power's regulatory framework and ability to recover its costs and earn a return are quite favorable and have been for many years.

A. Regulatory Framework

Q. PLEASE EXPLAIN "REGULATORY FRAMEWORK" AND HOW MOODY'S ASSESSES THIS FACTOR IN ITS CREDIT RATING METHODOLOGY.

A. For a rate regulated utility, "regulatory framework" is the regulatory environment in which the utility operates and how the utility reacts to that environment. Moody's summarizes "Regulatory Framework" as:

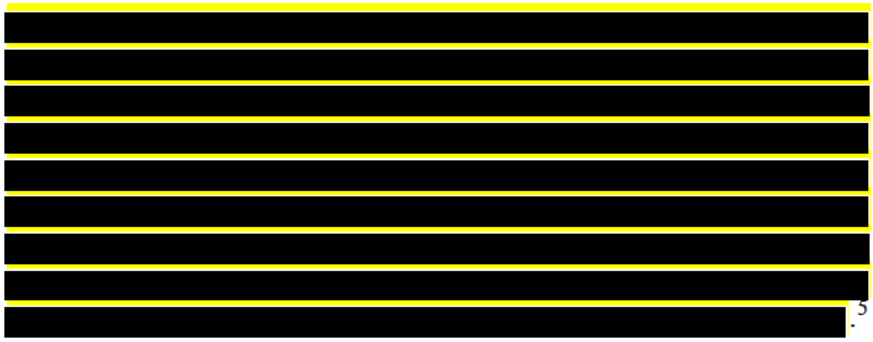
> The Regulatory Framework has many components: the governing body and the utility legislation or decrees it enacts, the manner in which regulators are appointed or elected, the rules and procedures promulgated by those regulators, the judiciary that interprets the

laws and rules and that arbitrates disagreements, and the manner in which the utility manages the political and regulatory process. [4]

Q. HAS THE GEORGIA COMMISSION BEEN RECOGNIZED BY THE CREDIT RATING AGENCIES AS SUPPORTIVE OF GEORGIA POWER?

A. Yes. The final order in Georgia Power's 2019 rate case was issued on December 17, 2019. In that final order, the Commission granted a ROE of 10.50% and an equity ratio of 56.0%. Both, the allowed ROE and the allowed equity ratio was significantly above the national average of allowed ROEs for that year. Specifically, the national average allowed ROE for electric utilities was 9.66% in 2019 and the national allowed equity ratio was 49.94%.

On December 18, 2019, Moody's wrote a report that stated:


[5]

As outlined above, Moody's concluded that the Georgia Commission provided a supportive regulatory environment based on the Commission's decision in the 2019 rate case to awarded Georgia Power 10.5% ROE and 56% equity ratio, unsymmetrical earnings band and annual step increases.

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[4] Moody's Rating Methodology for Regulated Electric and Gas Utilities, June 23, 2017, page 7

[5] Georgia Power Response to STF-NEC-1-1, Attachment V, Moody's Report entitled *Georgia Power Company: Georgia regulator's final rate case order is credit positive*

B. Ability to Recovery Costs and Earn Return

Q. PLEASE EXPLAIN THE RATING FACTOR "ABILITY TO RECOVER COSTS AND EARN RETURN" COMPONENT OF THE CREDIT RATING PROCESS.

A. This rating factor examines the adequacy of a utility's cash flow and the utility's ability to service its debt over time. This factor evaluates the regulatory elements that are crucial to utility operating cash flows and, as such, is a more direct causation than is the regulatory framework that may come from more of a policy standpoint. As noted in Table 1 above, the "ability to recover costs and earn return" factor accounts for 25% of the Moody's credit rating score.

However, as noted above, this Commission has awarded Georgia Power a very high ROE and common equity ratio in its last rate case, thereby enhancing the Company's ability to recover its costs and earn a fair return. In addition, the Commission has set rates that have enabled Georgia Power to earn well above its awarded ROE for the last several years. In this proceeding Mr. Gorman demonstrates in his testimony that a lower ROE and equity ratio would provide Georgia Power the ability to recover costs and earn a fair return under efficient and economic management.

C. Diversification

Q. HOW IS DIVERSIFICATION CONSIDERED BY MOODY'S IN THE CREDIT RATING PROCESS?

A. Moody's considers both business and geographic diversification of utility operations. As a result, diversification of customer load is critical to the credit analysis of any utility. Georgia Power has a diverse set of customers with

residential, commercial and industrial customer sales of 34 percent, 38 percent and 28 percent, respectively.[6]

Fuel diversity is also, in general, viewed favorably by credit agencies. Georgia Power has a very diverse fuel mix of coal, natural gas, nuclear, hydro and solar.

D. Financial Metrics

Q. PLEASE DESCRIBE HOW MOODY'S ASSESSES FINANCIAL STRENGTH IN ITS CREDIT RATING METHODOLOGY.

A. Financial strength represents 40% of the Moody's credit rating analysis and is defined as the ability of a utility to make its debt interest and principle payments consistently in a timely manner and to provide a return for shareholders sufficient to attract capital for investment purposes. The Moody's analysis is not only a historical analysis but is also a forecasted analysis of various financial metrics primarily focused on cash flow generated by operations relative to annual interest expense and amount of debt. The specific Moody's metrics are listed below:

- Cash flow interest coverage, which is defined as the sum of cash flow from operations pre-working capital plus interest divided by interest;
- Cash flow pre-working capital divided by debt; and
- The sum of cash flow from operations pre-working capital less dividends divided by outstanding debt.

[6] Southern Company 2021 10-K filing to the SEC. Page II-24. Values are calculated from kWhs of sales in 2021.

Georgia Power has produced ample operating cash flow from operations of $2.8 billion annually to cover cash interest expense of $380 million annually over the past three years.[7]

Q. HOW HAS THE FINANCIAL RISK OF GEORGIA POWER CHANGED SINCE THE COMPANY'S LAST RATE CASE IN 2019?

A. The Company's financial risk has increased due to delays and cost overruns on Vogtle Units 3 and 4. For example, the total debt on the balance sheet of Georgia Power has definitely risen since 2019 as shown in Table 5 below.

Table 5: Georgia Power Long-Term Debt

Year	Long-Term[8] Debt ($ 1000s)
2018	$ 9,364,000
2019	$12,073,000
2020	$13,584,000
2021	$14,108,000
6-30-22	$15,400,000

However, Georgia Power's financial metrics have remained relatively stable. The stability of financial metrics is supported by the Commission's "constructive" regulation including setting of base rates and the collection of Vogtle financing cost as incurred through the Nuclear Construction Cost Recovery ("NCCR") tariff. The addition of $6 billion in debt since 2018 is significant, but the Company has been able to service the debt due in part to the constructive regulation provide by the Georgia Commission.

Q. WHAT IS THE BASIS OF YOUR OBSERVATION THAT THE INCREASE IN DEBT BY GEORGIA POWER HAS NOT RESULTED IN

[7] Southern Company 2021 10-K filing to the SEC. Page II-97. Statement of Cash Flows.

[8] Regulatory Research Associates, accessed Sept. 19, 2022

SUBSTANTIAL CHANGES TO THE FINANCIAL POSITION OF GEORGIA POWER?

A. I base this position on my review of Georgia Power's financial credit metrics/ratios relative to standard metrics followed by Moody's for electric and natural gas utilities.

Q. PLEASE EXPLAIN THE FINANCIAL METRICS/RATIOS THAT YOU EXAMINED IN YOUR ANALYSIS OF GEORGIA POWER.

A. I examined four financial ratios that are considered by Moody's when making a financial credit decision on a specific entity. These rates measure the ability of a company to service its debt requirements. Specifically, I studied four financial ratios and compared Georgia Power metrics to the criteria as outlined by Moody's.

The first ratio I studied was debt leverage. Table 1 below shows the Moody's financial ratio for debt leverage associated with the various credit ratings.

Table 1: Moody's Debt to Total Capital Ratio per Credit Rating[9]

	Aaa	Aa	A	Baa	Ba	B	Ca
Debt/Capitalization	<29%	25% - 35%	35% - 45%	45% - 55%	55% - 65%	65% - 75%	>=75%

Table 2: Georgia Power Debt/Total Capital[10]

Date	Debt/Cap
12-31-18	[redacted]%
12-31-19	[redacted]%
12-31-20	[redacted]%
12-31-21	[redacted]%
6-30-22	[redacted]%

[9] Moody's "Rating Methodology Regulated Electric and Gas Utilities", June 23, 2017

[10] Moody's Credit Opinion "Georgia Power Company Update to Credit Analysis, dated October 13, 2021.

As shown above in Table 2 this metric indicates Georgia Power's debt to total capital ratio is consistent with a "Baa" rating for the last few years.

The next ratio I examined was the strength of a utility's cash flow relative to its debt. This ratio compared the Cash Flow from Operations pre-Working Capital to Debt.

Table 3 provides the Moody's pre-WC/Debt ratio for the various credit ratings.

Table 3: (CFO pre-WC)/Debt[11]

	Aaa	Aa	A	Baa	Ba	B	Ca
CFO pre-WC/Debt	>+40%	30% - 40%	22% - 30%	13% - 22%	5% - 13%	1% - 5%	<1%

The corresponding ratio for Georgia Power is as follows:

Table 4: Georgia Power (CFO pre-WC)/Debt[12]

Date	(CFO pre-WC /Debt
12/31/2017	[redacted]%
12/31/2018	[redacted]%
12/31/2019	[redacted]%
12/31/2020	[redacted]%
6/30/2021	[redacted]%

As shown in Table 4, this metric indicates Georgia Power's cash flow pre operating capital to debt ratio is between "A" and "Baa" rating for the last few years.

[11] Moody's "Rating Methodology Regulated Electric and Gas Utilities", June 23, 2017

[12] Moody's Credit Opinion "Georgia Power Company Update to Credit Analysis, dated October 13, 2021.

The next financial metric examines the ability of a company to pay its interest expenses. This metric measures a company's cash flow generated by the business relative to interest expense. The specific metric is cash flow pre-working capital plus interest divided by interest expense "(CFO pre-WC+Int)/Int." The Moody's standards are below.

Table 5: (CFO pre-WC + Int)/Int[13]

	Aaa	Aa	A	Baa	Ba	B	Ca
CFO pre-WC+Int/Int	>=8.0x	6.0x - 8.0x	4.5x - 6.0x	3.0x - 4.5x	2.0x - 3.0x	1.0x - 2.0x	<1.0x

Table 6 below provides the interest coverage ratio dating from 2017 through June, 2021.

Table 6: Georgia Power (CFO pre-WC + Int)/Int[14]

Date	(CFP pre-WC +Int)/Int
12/31/2017	[redacted]X
12/31/2018	[redacted]X
12/31/2019	[redacted]X
12/31/2020	[redacted]X
6/30/2021	[redacted]X

This financial ratio indicates Georgia Power is "Aa" rating for the last few years.

[13] Moody's "Rating Methodology Regulated Electric and Gas Utilities", June 23, 2017

[14] Moody's Credit Opinion "Georgia Power Company Update to Credit Analysis, dated October 13, 2021., p. 3

Another financial credit risk compares cash flow generated by the business relative to the amount of debt issued by a company. The specific metric is cash flow from operations plus working capital less dividends divided by debt outstanding "(CFO Pre-WC less Dividends)/Debt." This ratio is an indicator of a utility's cash flow after dividend payments relative to the amount of debt outstanding.[15]

Table7: Moody's Standards for CFO Pre-WC less Dividends/Debt[16]

	Aaa	Aa	A	Baa	Ba	B	Ca
(CFO pre-WC-Div)/Debt	>=35%	25% - 35%	17% - 25%	9% - 17%	0% - 9%	(5^ - 0%	<(5%)

Georgia Power's CFO Pre-WC less Dividend/Debt ratio is as follows:

Table 8: Georgia Power CFO Pre-WC less Dividends/Debt[17]

Date	(CFO pre-WC -Div)/Debt
12/31/2017	[redacted]%
12/31/2018	[redacted]%
12/31/2019	[redacted]%
12/31/2020	[redacted]%
6/30/2021	[redacted]%

For this ratio, Georgia Power is in the Baa range of the Moody's standards.

The four financial ratios noted above, Georgia Power is in the "Aa" rating for one metric, between "A" and "Baa" rating for one metric ; and in the "Baa" range for two metrics.

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[15] Moody's "Rating Methodology Regulated Electric and Gas Utilities", June 23, 2017

[16] Id

[17] Moody's Credit Opinion "Georgia Power Company Update to Credit Analysis, dated October 13, 2021., p. 3

These four financial metrics indicate Georgia Power is between A and Baa. Given Georgia Power's elevated business risk due to the construction of Vogtle Units 3 and 4, it is not surprising to see the Company rated the lower "Baa" instead of "A".

Q. **IS THE RATING PROCESS FOR STANDARD AND POORS (S&P) SIMILAR TO THE RATING PROCESS OF MOODY'S?**

A. Yes. S&P separates the rating process into business risk and financial risk and then combines the two into a single "anchor" rating. [18] The anchor rating can be subjected to other factors such as financial policy, liquidity, diversification, and management.

IV. MOST RECENT CHANGES IN GEORGIA POWER CREDIT RATINGS

Q. WHEN IS THE LAST TIME THE CREDIT RATINGS OF GEORGIA POWER WERE CHANGED?

A. On Oct. 27, 2021, S&P downgraded Georgia Power from A- to BBB+.[19]

On August 8, 2019, Moody's downgraded Georgia Power from A3 to Baa1.[20]

Fitch downgraded Georgia Power's rating from BBB+ to BBB on February 22, 2022.[21]

[18] S&P Ratings Direct, November 19, 2013, page 3

[19] Georgia Power Response to STF-NEC-1-9

[20] Id

[21] Id

Q. WHAT WAS THE PRIMARY REASON FOR THE CREDIT DOWNGRADES AS NOTED ABOVE?

A. Without a doubt, the focus of the credit agencies has been the problems associated with the completion of the Vogtle nuclear plants. Below are what the credit agencies stated in regard to the downgrades.

Moody's Report of August 8, 2018

[redacted][22]

On Oct. 16, 2020, S&P issued a report in which it stated the following:

Downside scenario

[redacted][23]

[22] Georgia Power Response to STF-NEC-1-1, Attachment H, Moody's Report of August 8, 2018 entitled *Rating Action: Moody's downgrades Georgia Power to Baa1, ratings on review; affirms Southern at Baa2, negative outlook; affirms Alabama Power at A1, negative outlook; upgrades Mississippi Power to Baa3, positive outlook*

[23] Georgia Power Response to STF-NEC-1-1, Attachment AA, S&P report on Georgia Power dated Oct. 16, 2020.

S&P gave warning of a potential downgrade on Oct. 16, 2020 and then, on Oct. 27, 2021, the credit agency did, indeed, lower the credit rating of Georgia Power.

On February 21, 2022, Fitch lowered the credit rating of Georgia Power to BBB and stated the reasoning as:

[redacted][24]

Q. ARE THE CREDIT AGENCIES STILL CONCERNED ABOUT THE COMPLETION OF VOGTLE UNITS 3 AND 4?

A. Yes, very much so. On January 25, 2022, Moody's wrote an article that stated:

[redacted][25]

[24] Georgia Power Response to STF-NEC-1-1, Attachment AK, Fitch Ratings Report entitled *Fitch Downgrades Georgia Power to 'BBB'; Outlook Stable; Revises Southern's Outlook to Negative*

[25] Georgia Power Response to STF-NEC-1-1, Attachment AJ, Moody's Report entitled *Georgia Power Company: As Vogtle nears completion, achieving final milestones will be critical for both credit quality and stakeholder support*

Based on the above statement from Moody's, the pressure is on Georgia Power to complete the Vogtle units in a timely manner.

V. COST OF CAPITAL TO CONSUMERS IS NOT LIMITED TO HIGHER INTEREST COSTS FROM CREDIT RATING CHANGES

Q. DID COMPANY WITNESS FETTER TESTIFY IN THE 2019 RATE CASE?

A. Yes, he did.

Q. IN THE 2019 RATE CASE, DID WITNESS FETTER ADDRESS THE POSSIBLE DOWNGRADE OF THE GEORGIA POWER CREDIT RATINGS?

A. Yes, he did. Below is what Mr. Fetter stated in his prefiled testimony from the 2019 rate case:

> Accordingly, I encourage the Commission to continue its supportive regulatory policies and procedures to solidify the Company's current credit ratings – with the potential that the ratings from Moody's and Fitch will be able to strengthen over time. Alternatively, a downgrade of S&P's 'A-' rating to 'BBB+', joining the other two agencies, would be financially injurious to both customers and investors, especially amidst the Company's effort to regain momentum with regard to bringing the Vogtle project to completion. [26] (underline added)

Q. DID S&P LOWER GEORGIA POWER'S CREDIT RATING AFTER THE 2019 RATE CASE?

A. Yes. Despite the Commission granting the Company a ROE 84 basis points (0.84 percent) higher than the national average of 9.66 percent and an equity ratio of 56 percent versus the national average of 49.94 percent, Georgia Power's credit rating was still downgraded by S&P on Oct. 27, 2021 from A- to BBB+.

[26] Prefiled Testimony of Fetter, Docket No. 42516, p. 19

Q. DID YOU CALCULATE THE REVENUE REQUIREMENT IMPACT FROM THE HIGHER ALLOWED ROE AND EQUITY RATIO THAT WAS ALLOWED BY THE COMMISSION IN THE 2019 RATE CASE?

A. Yes. Based on schedules filed by Georgia Power in the 2019 rate case, I was able to calculate that the higher revenue requirement associated with the 10.5% ROE and 56.0% equity ratio, as compared to the national averages in 2019, cost Georgia Power consumers an extra $683 million in higher rates over the three-year period 2020 - 2022.[27] The calculations for this estimate can be seen in Exhibit KWO-1.

In the Company's most recent rate case, the Commission granted Georgia Power a ROE and equity ratio considerable above national averages at that time that now, three years later, has cost consumers an extra $683 million. Unfortunately, the higher awarded ROE and equity ratio did not prevent the S&P bond downgrade.

Q. WHEN DID MOODYS DOWNGRADE GEORGIA POWER'S CREDIT RATING?

A. Moody's downgraded the Georgia Power credit rating on August 8, 2019, just prior to the final order being issued in the last Company rate case in December, 2019.

Q. CAN YOU CALCULATE THE APPROXIMATE AMOUNT OF HIGHER INTEREST EXPENSES PAID TO-DATE BY GEORGIA POWER DUE TO THE CREDIT DOWNGRADE BY MOODYS IN AUGUST, 2019?

A. Yes, since the downgrade that occurred in August, 2019, Georgia Power has made the following debt placements:

[27] DPP-SPA-MBR-1, Schedule 1 Total Company and DPP-SPA-MBR-3, Schedule 2, Workpapers 1-4.

Table 9: Debt Placements Since Moody's Downgrade[28]

Coupon Rate	Maturity Date	Date of Issue	New Issues (a)
(2)	(3)	(4)	(5)
3.25%	3/15/1951	2/22/2021	$ 750,000,000
2.20%	9/10/2024	9/10/2019	$ 400,000,000
2.65%	9/10/2029	9/10/2019	$ 650,000,000
2.10%	7/30/2023	1/8/2020	$ 700,000,000
3.70%	1/30/1950	1/8/2020	$ 500,000,000
			$ 3,000,000,000

This debt of $3 billion has been subjected to higher interest rates due to the downgrade of Moody's and the higher interest costs are now in the embedded cost calculations in this case.

Q. CAN YOU PROVIDE THIS COMMISSION WITH AN ESTIMATE OF THE HIGHER INTEREST EXPENSE PAID BY GEORGIA POWER CONSUMERS AS A RESULT OF THE DOWNGRADE BY MOODY'S IN AUGUST, 2019?

A. Yes. In Exhibit KWO-2, pages 1-6, I provided a study to analyze the revenue requirement impact to consumers from the interest cost increase associated with the Georgia Power credit downgrade.

Q. PLEASE EXPLAIN HOW YOU CALCULATED THE HIGHER REVENUE REQUIREMENT ASSOCIATED WITH HIGHER INTEREST COSTS FROM THE CREDIT DOWNGRADE THAT OCCURRED IN AUGUST, 2019.

A. First, it is important to note that, from the Company's standpoint, higher interest costs associated with a downgrade apply only to debt issued prospectively. Hence, interest rates on bonds already issued prior to the downgrade cannot be changed to adjust for the credit downgrade.

[28] Supplemental Item MFR S-9

To determine the higher interest rate costs associated with a possible downgrade, I examined yield spreads to determine the increase in interest costs associated with the one-notch downgrade that has already occurred in the Georgia Power credit rating. The period I examined was from January 2019 through December, 2021 to align with the above-stated bond issuances. The bond yield spread information came from the Mergent Bond Record and listed the average yields on Public Utility "A" rated bonds and Public Utility "Baa" bonds. The data for this range can be seen in Exhibit KWO-2, p. 1-4.

To isolate the credit spreads to the time the bonds in-question were issued, I examined the calendar year average spread as well as the spread in the month in which the bonds were issued. Given that the Mergent spreads were for one full credit rating and there are three notches within a full rating, I divided the annual and monthly spreads by 3 to arrive at a representative spread that occurred at the time of the debt issuance. I then averaged the annual and monthly one-notch spread and applied it to the debt issuance for the three debt issuances that have occurred since the Moody's downgrade of August, 2019. I also summed up the interest cost for each issuance through the life of the issuance. The end result of these calculations can be seen in Exhibit KWO-2, p. 5 and show a total interest cost increase of approximately $45.3 million that has already occurred and will continue to occur over the life of the debt issuances dating back to just after the Moody's downgrade in August, 2019.

The higher ROE and equity ratio awarded in the last rate case cost consumers $683 million over the past three years. However, even with these actions approved by the Commission to shore up the financial position of Georgia Power, Moody's kept the bond rating at "Baa1". The downgrade that occurred in August, 2019, and the lack of any upward movement in the credit rating from Moody's has caused five Georgia Power bond issuances to be issued at interest rates higher than they would be had the downgrade not occurred. The end result is that consumers have paid

$683 million to help with the Georgia Power credit rating but, even with the above-average ROE and equity ratio granted in the last rate case, consumers have paid an additional $45.3 million in higher interest expenses over the life of the bonds due to the August, 2019 downgrade by Moody's.

Q. IS MR. FETTER'S TESTIMONY IN THIS PROCEEDING SIMILAR TO HIS POSITION IN THE 2019 CASE?

A. Yes, it is.

Q. PLEASE EXPLAIN MR. FETTER'S TESTIMONY IN THE CURRENT PROCEEDING.

A. In much the same manner as he testified in the 2019 rate case, Mr. Fetter is advocating for an outsized ROE and common equity ratio to prevent a *possible* downgrade in the credit rating of Georgia Power. Below is Mr. Fetter's position in this case:

> In order for Georgia Power to be able to, at a minimum, maintain, and potentially improve its current ratings range across all three agencies, I encourage the Commission to set the ROE and capital structure at levels consistent with Mr. Coyne's recommendations. Such a Commission determination would show a continuation of the strong regulatory support that Georgia Power has long experienced, which should avoid further weakening the Company's credit profile. On the other hand, a less than constructive decision by the Commission in this case could lead to further negative credit rating actions, potentially continuing the Company movement below the 'BBB+' / 'Baa1' rating level that I have long testified represents the lowest appropriate credit rating level for a U.S. regulated utility. Such negative ratings actions would increase the Company's cost of capital and its normal day-to-day capital investment for reliability during a time of increasing inflationary pressure, ultimately leading to higher rates for customers. [29]

[29] Prefiled Direct Testimony of Fetter, p. 5.

Q. DO YOU AGREE WITH MR. FETTER THAT THE COMMISSION SHOULD AWARD THE COMPANY AN 11.0% ROE AND A 56% COMMON EQUITY RATIO?

A. No. First, Mr. Fetter's testimony is speculative, at best, in that he cannot assure this Commission that its actions, no matter how much it awards Georgia Power in this case, will prevent a credit downgrade such as the recent Fitch downgrade that occurred earlier this year and the S&P downgrade that occurred late last year. The high ROE and equity ratio in the last rate case did not, contrary to Mr. Fetter's statements in the 2019 case, prevent a credit downgrade. Instead, the delay in completing Vogtle appears to be the primary reason for the credit downgrade. This construction delay was the responsibility of corporate management and not regulation, as cited by Mr. Fetter.

Second, as noted above, Georgia Power's financial metrics are stable, and the Company is on the final stretch for the completion of the Vogtle plants. Georgia Power should find itself flush with cash in less than two years as the Vogtle plants come online and the associated proceedings come to an end, all of which may very well result in a credit upgrade by the credit agencies.

Third, Mr. Fetter did not even attempt to provide this Commission with any evidence to support his contention that an excessively high ROE and equity ratio was needed by the Company for its credit rating. While I understand that Mr. Fetter is an advocate for his client in this proceeding, I believe he could have, and indeed should have, provided the Commission with a complete understanding of the costs to consumers of his recommendation versus the cost of a potential downgrade in credit costs.

Q. CAN YOU PROVIDE THIS COMMISSION WITH A REVIEW OF THE COSTS SOUGHT BY GEORGIA POWER IN THIS CASE RELATIVE TO THE PROSPECT OF HIGHER INTEREST COSTS ASSOCIATED WITH A CREDIT DOWNGRADE AS FEARED BY MR. FETTER?

A. Yes. In Exhibit KWO-3, I provided a study to analyze the revenue requirement impact to consumers from the prospective interest cost increase associated with a possible downgrade versus the significantly higher revenue requirement due to the higher ROE and equity ratio as requested by Georgia Power in this case.

Q. HOW DID YOU CALCULATE THE HIGHER REVENUE REQUIREMENT ASSOCIATED WITH THE COMPANY'S REQUEST IN THIS CASE?

A. I made this calculation in the same manner in which I calculated the revenue from the 2019 rate case that is shown in Exhibit KWO-1. Specifically, I calculated the pre-tax cost of capital for Georgia Power using its requested 11.0% ROE and 56% equity ratio in this case and compared that value to the pre-tax cost of capital that would Georgia Power receive if it had sought a ROE and common equity ratio equivalent to the national average provided by regulators across the country in 2021. I applied this difference in pre-tax cost of capitals to the requested rate base in this case and found that Georgia Power's request in this case increases the annual revenue requirement by an additional $421.1 million as compared to the national average allowed ROE and equity ratio. Over the three year plan period of 2023 – 2025 the increase to customers would be approximately $1.26 billion. The calculation details can be found in Exhibit KWO-3.

To determine the higher interest rate costs associated with a possible downgrade, I examined yield spreads to determine the possible increase in interest costs associated with the one-notch downgrade that has already occurred in the Georgia Power credit rating. The period I examined was from January 2012 through August, 2022. The bond yield spread information came from the Mergent Bond Record and listed the average yields on Public Utility "A" rated bonds and Public Utility "Baa" bonds. The data for this range can be seen in Exhibit KWO-4, p. 1-4. From January 2012, through August 2022 the average yield spread between these bonds was 51 basis points (0.51%). In August 2022, the spread was 33 (0.33%) basis point. I averaged the two points to arrive at an estimated future yield spread of 42 (0.42%) basis points. However, this spread represents a 3-notch

difference, whereas the credit downgrade for Georgia Power would be, in my opinion, a maximum downgrade of only one notch (Baa1 to Baa2). As a result, for the purposes of this analysis, I assumed the yield spread change would be 14 basis points (42 basis points divided by 3). The details of this analysis can be seen in Exhibit KWO-4, p. 5 attached to my testimony.

According to material filed in this case by Georgia Power Witnesses Abramovitz, Adams, Houston, and Robinson, the Company anticipates issuing $3.45 billion of new debt in 2023.[30] This analysis conservatively assumes that the significant increase cash flows from Unit 3 coming online would not prevent a hypothetical downgrade. Multiplying the 14 basis points (0.14) by the anticipated debt offerings of $3.45 billion results in a total cost of $4.8 million in annual additional interest expenses. Over a 20-year time period (life of the bond), the total increase in interest expense would be $96 million. The details of this analysis can be seen in Exhibit KWO-4 attached to my testimony.

So, in summary, Mr. Fetter and Georgia Power is asking this Commission to increase rates by $1.26 billion to POSSIBLY save $96 million in higher interest costs. I use the word "possibly" because, again, a higher ROE and equity ratio does not guarantee Georgia Power's credit rating will not be downgraded. The timely completion of Vogtle is clearly the most important factor affecting the current credit rating of Georgia Power.

Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION IN REGARD TO SETTING AN APPROPRIATE ROE AND CAPITAL STRUCTURE IN THIS PROCEEDING?

A. I will agree with Mr. Fetter that the credit rating of a utility has a significant impact on the interest expense paid by consumers. However, financial market conditions, general economic conditions, utility industry outlook and corporate management

[30] Exhibit APG-SPA-ADH-MBR, Schedule 3, Workpapers 1-6.xlsx

operating in an efficient and economic manner also impact interest expense incurred by a utility and recovered from ratepayers. However, Mr. Fetter's testimony is a classic case of "the tail wagging the dog". As noted above, it makes no sense whatsoever for the Commission to grant the Company's requested ROE and equity ratio in this case that would drive up rates $1.26 billion just to avoid possible higher interest costs of $96 million. My recommendation to this Commission is to give Mr. Fetter's testimony little weight and to recognize the potential risk is very small relative to the cost to ratepayers given that Vogtle units will be placed in service in the next year according to Georgia Power. The Commission should accept the well-reasoned recommendation of Staff Witness Gorman in this case.

VI. SUMMARY OF RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR FINDINGS IN THIS CASE.

A. My findings are as follows:

- The credit rating process examines business risk and financial risk;
- Georgia Power's business risk is elevated due to its ongoing struggles in completing Vogtle Units 3 and 4;
- Company Witness Fetter's testimony is incomplete because it does not address in a comprehensive manner the tradeoffs for customers of higher capital cost for Georgia Power versus interest expense savings and should therefore be given little weight;
- The Company's requested ROE and equity ratio requests in this case will amount to over $1.26 billion in higher annual revenue requirements to Georgia consumers as opposed to a possible $96 million in higher interest expenses should its bonds be downgraded;
- I recommend the Commission accept the recommended ROE and capital structure of Staff Witness Gorman.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.