

Global Credit Research - 16 Jul 2010

Approximately \$413 million of securities affected

New York, July 16, 2010 -- Moody's Investors Service assigned A3 senior secured ratings to three series of Seminole Electric Cooperative, Inc. (Seminole) privately placed notes (Series A due 2024; Series B due 2033; and Series C due 2035) and A3 senior secured underlying ratings to two series of pollution control revenue refunding bonds (PCRBs) issued by Putnam County Development Authority on behalf of Seminole (Series 2007A and Series 2007B; both due 2042), which are currently insured by Ambac. Moody's also assigned a stable rating outlook for Seminole.

"The rating assignments reflect Seminole's generally low business and financial risk profile supported by long-term wholesale power contracts (WPC) with its members, the cost effective supply portfolio available to meet members' future needs, and the cooperative's recently improved financial metrics", said Vice President, Kevin Rose. "Seminole also has significant rate flexibility, given the absence of state rate regulation by the state commission, the existence of fuel and purchase power pass through mechanisms and reduced capital spending and rate relief needs over the next several years" Rose added.

Seminole recently improved the quality of its alternate liquidity by amending existing bank documents to eliminate the applicability of the material adverse change clause as part of the representations and warranties for each borrowing. Nevertheless, key near term rating concerns include Seminole's need to replace its \$200 million of existing liquidity facilities on satisfactory terms ahead of the December 2010 expiration date and the effects of the economic environment in Florida. Additional rating concerns over the medium to longer term relate mostly to the planned termination of the WPC relationship with Seminole's second largest member, Lee County Electric Cooperative, Inc., effective January 1, 2014; a relatively high dependence on purchased power; potential effects of federal carbon legislation given Seminole's dependence on carbon emitting generation capacity; and the extent to which members might exercise options to take a portion of their power needs from alternative suppliers as permitted beginning in 2021 under recently extended WPCs.

Seminole's interest and debt coverage metrics have recently improved from weaker levels as its board has taken timely actions to adjust rates to address various cost pressures and higher than historical average annual capital spending due to environmental related projects and is following an equity development plan to strengthen a historically weak balance sheet as debt was the primary source of funding for the capital investments. On average, over 2007 - 2009 Seminole produced times interest earned and debt service coverage ratios of 1.2x and 1.2x, respectively; in both instances above the minimum covenant levels of 1.05x and 1.0x, respectively, required for at least two of the past three fiscal years. Moody's takes a credit positive view when management achieves in excess of thin minimum required covenant levels typically present in cooperative debt indentures. Following substantial completion of the environmental related capital expenditures, a rate increase implemented in 2009 also resulted in improved net margin and funds from operations (FFO), thereby strengthening Seminole's FFO to debt and FFO coverage of interest to 6.1% and 2.2x, respectively, for 2009. We assume that Seminole can prospectively generate FFO in excess of \$100 million annually, thereby providing a basis for further strengthening of these metrics in support of, and potentially improving, the A3 rating under the sector's Rating Methodology.

Under its new indenture of mortgage that replaced Seminole's prior mortgage with the Rural Utilities Service, the cooperative is now governed in part by a minimum required margins for interest (MFI) metric of 1.1x and must also achieve at least a 20% equity to total capitalization ratio before it can resume retirement of patronage capital (i.e. equivalent to a common dividend payment). Seminole's board of trustees has approved an equity development plan that targets compliance with the MFI covenant in each year and attaining at least a 20% equity to total assets level by the end of 2014. Moody's anticipates that the board will modify its equity development program to conform to achieving 20% equity to capitalization by 2014. Taking into account Moody's standard adjustments, Seminole's equity to capitalization stood at 9.2% as of December 31, 2009, which is low relative to its peers, thus requiring significant progress before achieving the 20% target.

Seminole's stable rating outlook includes Moody's assumptions that liquidity will be shored up ahead of the impending bank facility expirations and that the cooperative will maintain a sound financial profile consistent with its A3 rating at a minimum given our expectations that it can annually generate approximately \$100 million of funds from operations and faces limited financing and rate relief needs over the next few years. The stable outlook also reflects our belief that Seminole will weather the eventual loss of Lee County's entire load. While we view management's approach to handling its credit facility extension so close to its expiration date as less than ideal, particularly in light of today's more challenging bank credit environment, we believe that the recent success in amending existing facilities evidences good banking relationships that should facilitate a smooth and timely extension of the facilities in advance of the December 2010 expiry date. Any problems extending these facilities would result in negative rating action.

The principal methodology used in rating Seminole is U.S. Electric Generation & Transmission Cooperatives, published in December 2009 and available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

This is the first time that Moody's has assigned a rating to Seminole's standalone debt.

Seminole Electric Cooperative, Inc., headquartered in Tampa, Florida, is an electric generation and transmission cooperative which provides for the power supply needs of its ten member distribution cooperative owners. Seminole owns approximately 2,165 megawatts primarily fossil fueled generation capacity and reported revenues of \$1.4 billion for 2009.

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