

Seminole Electric Cooperative

Primary Credit Analysts:

Leo Carrillo
San Francisco
(1) 415-371-5077
leo_carrillo@
standardandpoors.com

Corporate Credit Rating

A-/Stable/—

Outstanding Rating(s)

Seminole Electric Cooperative

Sr unsecd debt
Local currency BBB+

Corporate Credit Rating History

June 30, 2000	A
July 29, 2005	A-

Major Rating Factors

Strengths:

- A captive retail market and the ability to set rates through take-or-pay all-requirements wholesale power agreements with 10 member distribution cooperatives located throughout Florida that expire no earlier than 2020.
- Favorable rate-setting practices, including annual and intra-year base rate review and automatic pass-through of fuel and power costs through a power cost adjustment mechanism that is reset at least every six months.
- A growing and primarily residential retail base, with electric energy sales growth averaging 4.4% annually over the past three years and expected 3.9% annual growth over the next 10 years.

- A competitive generation fleet and fuel mix consisting of coal and natural-gas fired resources.
- Competitive member rates, despite recent increases due to rising fuel costs.
- Financially strong member distribution cooperatives, with debt service coverage ratios among members ranging from 1.2x to almost 3.0x in 2005.

Weaknesses:

- High capital requirements due to Seminole's plans to expand its coal plant by adding a third unit based primarily on expiring purchase power contracts.
- Asset concentration of baseload power supply in two owned and leased coal-fired facilities that account for 60% of the members' energy needs (each unit about 30%), although the addition of a third coal unit will reduce this concentration.
- Uncertainty regarding long-term load requirements due to resistance by one of Seminole's large members to join the rest of its peers by extending its wholesale power contract with Seminole to 2045 from 2020.
- A moderate amount of counterparty credit exposure to Calpine Corp. (D/—/—) and Reliant Energy Inc. (B/Stable/B-2), which account for about 10% of Seminole's power supply through 2010.
- High debt leverage at 91%, although other debt measures are favorable, including debt per kilowatt of installed generation of about \$526.
- Weak historical cash flow coverage, with debt service coverage projected to range from 1.05x to 1.08x.

Rationale

The rating on Seminole Electric Cooperative Inc. (Seminole) reflects the electric utility's strong business risk profile and ability to set rates and pass-through costs to its 10 member distribution cooperatives.

As of December 2005, the Tampa-based electric generation and transmission (G&T) cooperative had approximately \$1 billion in total debt outstanding.

Seminole sells energy under all-requirements contracts to 10 distribution cooperatives that serve about 846,000 retail customers located in portions of 45 counties throughout Florida. Seminole's electricity sales to members totaled approximately 16,298 gigawatt-hours in 2005, which placed Seminole among the nation's five-largest generation and transmission cooperatives.

The utility is still in the process of extending its member contracts. It has extended the contracts of nine of its 10 members, representing 79% of member revenues, through 2045, but has yet to extend the contracts of the second largest member, Lee County Electric Cooperative (Lee County), whose contract expires in 2020. A proposed amendment affecting only the nine members that have extended, the contract reverts to a 'net-requirements' basis, allowing members to find alternative energy suppliers for incremental energy needs after 2020 while still paying capacity charges under the existing take-or-pay contracts. While the contract expiration date for Seminole's second largest member is still many years away, uncertainty over long-term load requirements and the potential mismatch between member

contract duration and final debt maturities could pose a challenge to Seminole as it pursues its coal plant or other resource acquisitions.

Seminole's retail markets are strong and have several attributes that are generally favorable to credit quality, including a high concentration of residential customers, which accounted for about 45% of revenues in 2005, and strong growth rates averaging 3.7 % customer growth and 5% energy sales growth from 2000 to 2005

Seminole owns 1,827 MW of efficient base and intermediate load, generating winter capacity that has historically exhibited reliable performance at moderate production costs. The cooperative supplements its installed generation with higher-cost power purchased to meet demand peaks and load shaping. About a quarter of Seminole's energy needs are typically met with purchased power. The cost of self-generation and purchased power blended into a competitive average wholesale rate of 64.64 mills per kilowatt-hour (kWh) in 2005. This rate compares favorably to regional wholesale providers. Current rates are expected to increase over the near-to-intermediate term as gas prices remain elevated and power supply resources are added to the portfolio.

Future power needs will continue to be met through a combination of constructing new generation and purchased power contracts. The addition of new purchased power contracts and completion of construction of its 310 MW of combustion turbine units that went into commercial operation on Dec. 1, 2006 will satisfy the projected 2006 load. A project involving significant risk is the board-approved 750 MW pulverized coal plant to be sited at one of its existing sites. Seminole is in the initial licensing and engineering phase for the \$1.4 billion project, which is expected on line by 2012. Loan applications to USDA Rural Utilities Service (RUS) have been made for \$1.8 billion to finance Seminole's 750 MW expansion of the Seminole coal station and system capital improvements. Seminole will oversee the construction process and assume the risk of financial overruns and/or construction delays. This project is needed to meet the future needs of its members, even if Lee County chooses not to extend its wholesale power contract beyond 2020.

Seminole, which sets its own rates, budgets for narrow excess financial margins. It adopted a policy to set rates to provide 1.05x debt service coverage, slightly above the level required under the mortgage granted to the RUS and National Rural Utilities Cooperative Finance Corp. The cash-basis debt service coverage was estimated by Standard & Poor's to be a slim 1.16x for the 12 months ended June 30, 2006. Debt service coverage improved slightly as higher revenues from the four approved 2005 fuel surcharge increases were collected. Debt leverage was high at 92% as of June 30, 2006.

Liquidity

Standard & Poor's is concerned about Seminole's thin margins because Seminole is forecasting low levels of liquidity through 2010, with days' cash ranging from about two weeks to slightly more than one month. Days' cash improves to about 50 days when the \$150 million of committed lines of credit are considered. Effective Jan. 1, 2007, Seminole will increase its committed lines of credit to \$220 million to improve its liquidity. By mid 2007, Seminole expects to execute a construction financing program of at least \$600 million, in addition to its liquidity.

Outlook

The stable outlook on Seminole's rating reflects continued strong growth and slight increases in wholesale rates. Rating stability also depends on the utility maintaining adequate liquidity for construction and rising fuel costs, especially given the cooperative's lag in collecting revenues from automatic fuel adjustments. The rating could be lowered if member discord results in reduced revenue flexibility, weaker contracts, or diminished load diversity. An outlook change to positive, which is less likely, would require additional financial improvement with no meaningful increase in business risk.

Seminole Electric Cooperative Financial Statistics

—Fiscal year ended Dec. 31—

(Mil \$)	2005	2004	2003	2002	2001
Total revenues	1,089,549	909,568	805,663	718,665	675,081
Net available	80,095	75,914	76,891	77,444	61,030
Cash flow DSC (x)	1.06	1.09	1.12	1.08	0.98
FFO/interest	1.06	1.51	1.41	1.34	1.22
Total on-balance-sheet debt	1,031,385	727,609	755,539	748,590	778,006
Total debt/total capital (%)	91.72	91.50	90.72	90.87	91.77
Equity/assets (%)	7.21	6.86	8.36	8.15	7.14
Total debt/generation capacity (\$/kW)	593.5	418.6	432.7	384.3	605.9
Total debt/customer (\$)	1281	950	1,020	1,045	1,120
Unrestricted days' cash	1.5	1.5	33.0	13.9	19.7

DSC—Debt service coverage; FFO—Flow of funds from operations.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2007 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by e-mail to: research_request@standardandpoors.com.