

Omaha Public Power District, Nebraska; CP; Retail Electric

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Omaha Public Power District, Nebraska; CP; Retail Electric

Credit Profile		
US\$288.83 mil elec sys rev bnds ser 2023A due 12/31/2053		
<i>Long Term Rating</i>	AA/Stable	New
US\$288.72 mil elec sys rev bnds ser 2023B due 12/31/2053		
<i>Long Term Rating</i>	AA/Stable	New
Omaha Pub Pwr Dist elec		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to the Omaha Public Power District (OPPD, or the district), Neb.'s approximately \$650 million senior-lien electric system revenue bonds, series 2023 A and B.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on parity obligations, its 'AA-' rating on OPPD's subordinate-lien bonds, and its 'A-1+' short-term rating on the district's commercial paper (CP).
- The outlook, where applicable, is stable.

Security

The 2023A bonds are being issued for general capital purposes of the district, including construction of two natural gas facilities--Turtle Creek Station (TCS) and Standing Bear Lake Station (SBLS)--that are a components of the district's Power with Purpose strategic plan. The 2023B bonds are being issued to refund nearly \$300 million of subordinate-lien debt and CP notes.

The bonds are secured by a pledge of the net revenues of OPPD's electric system. The district has \$2 billion of senior- and subordinate-lien debt outstanding. The district expects that the 2023B bonds will refund all long-term subordinate-lien obligations outstanding. OPPD has authority to issue up to \$350 million of CP, and has two credit lines totaling \$450 million. OPPD has covenanted that it will not issue CP in excess of amounts undrawn on the lines of credit, and that it will not draw on the lines of credit in excess of amounts of CP outstanding. We anticipate that post-issuance of the 2023B bonds, the district will have \$250 million in CP outstanding, leaving \$200 million on the credit lines available for liquidity needs.

Credit overview

In our view, key credit strengths include a strong, diverse, and growing customer base supported by an economically sound service area, the district's proven ability to maintain robust coverage of fixed charges, and substantial liquidity.

Mitigating these strengths are OPPD's sizable \$3.2 billion capital program (2023-2027), driven by a combination of demand growth (primarily attributable to Facebook's and Google's data center expansions); power supply transformation pressures in furtherance of OPPD's goal of net-zero carbon dioxide emissions by 2050; and the

Southwest Power Pool's (SPP) reserve margin requirement, which is increasing to 15% for 2023 from 12%, with further increases anticipated over the next several years.

In our view, OPPD's credit profile reflects the following strengths:

- A deep and diverse service area, which includes the City of Omaha and all or portions of 13 Nebraska counties, serving 395,000 meters. Residential customers, which account for 34% of operating revenue, provide stability to the district's demand profile, which performed well through the COVID-19 pandemic.
- Strong electric demand growth is projected across all customer classes. OPPD projects that industrial customers will account for 50% of total revenue by 2032, up from 29% in 2022. Although we view industrial sales as potentially less stable than residential, we note that the data centers (projected to account for 12% of revenue in 2032, up from 4% in 2022) are under a separate rate structure, composed of demand charges that recover capital costs plus a margin, and the pass-through of market-priced power. Both Google and Facebook have posted sureties and deposits (booked as restricted assets); accordingly, we believe that management has appropriately mitigated risk related to the data centers by recovering fixed costs associated with the expansion via the demand charge, and will not be exposed to variable power costs due to the energy pass-through.
- We anticipate that OPPD will maintain its competitive market position, despite growth pressures. According to the Department of Energy's Energy Information Administration, average revenue per kilowatt-hour was slightly above the state average in 2021, the most recent year of available comparative information. The district raised rates by 2.5% in 2022. But despite significant capital spending plans, increasing sales to an expanding high load factor industrial class will mitigate the need for future rate increases. OPPD plans to incrementally raise rates by a total of about 10% by 2027, which we view as manageable. The district has an automatic power cost adjustment mechanism that is triggered annually, providing modest (although potentially lagging) protection against under-recovery, but robust liquidity mitigates this credit risk. Management can employ the adjustment more frequently, although this has been untested as the district has not needed to do so.
- Fixed-cost coverage (FCC) has averaged a robust 1.69x over fiscal years 2020-2022, and is projected to be slightly higher through 2027, despite increasing fixed costs associated renewable resource additions and debt, and supportive of planned capital outlay. However, we note that the projected metric will be influenced by the ultimate debt-to-equity mix adopted to support OPPD's capital plan.
- Liquidity that is also robust, with \$918 million in available reserves (including \$200 million of undrawn capacity on credit lines), measuring 293 days of operating expenses at fiscal year-end 2022. Management projects maintaining days liquidity near this level through 2027. We note that the utility does not hedge natural gas purchases, but gas-fired generation currently accounts for only a small percentage of energy (about 6% in 2023). We understand that the district is in the process of developing a gas hedging program as a liquidity protective measure, to take effect when new gas-fired resources come on-line. We also note that OPPD's capital plan includes the addition of fuel oil capability and storage at existing gas generation facilities to improve winter resiliency.

The district rating reflects our opinion of the following credit risks:

- OPPD's power supply remains coal dependent (56% of energy in projected for 2023), and we anticipate this to remain so over the next decade, although we note that the district is incrementally transitioning to lower carbon intensity in pursuit of its net-zero carbon emissions goal. OPPD expects to add 1,000 megawatts (MW) of solar, 600 MW of gas-fired combustion turbines, and 125 MW of energy storage by 2030. Management has not yet decided on the mix between contracted versus owned resources, but for planning purposes (and as reflected in financial

projections), has assumed a 50%-50% split. OPPD expects that coal will still account for a sizable portion of energy (36% in 2032), and we believe that this will continue to expose the utility to future emission regulations, which we view as inevitable.

- The electric system is moderately leveraged, with \$2.6 billion of total debt (including separately secured separate system debt) at fiscal year-end 2022, measuring 66% of total capitalization. The district's 2023-2027 capital plan totals \$3.2 billion, with about half financed with debt. Debt-to-capitalization is projected to decline slightly through 2027, as increasing leverage is outpaced by increasing equity.

Environmental, social, and governance

Environmental risk factors pose a moderately negative credit risk related to potential regulation of carbon emissions from OPPD's stakes in the coal-fired units (56% of energy estimated in 2023), but we also note that the utility has substantial renewables, which accounted for 38% of energy. The district's goal is to achieve net-zero carbon dioxide emissions by 2050. In furtherance of this goal and to meet increasing demand and capacity requirements, OPPD plans to reduce/eliminate coal-fired generation, and add a substantial amount of renewables, storage, and gas-fired combustion turbines. It projects that by 2032, coal, renewables, and gas will respectively account for 36%, 58%, and 5% of energy needs.

We view social risks as credit neutral, and primarily related to rates that are near Nebraska's state average and expected to remain so over the next five years. The pandemic had a minimal impact on OPPD's operations; energy continued to grow, delinquencies and arrearages were in line with pre-pandemic levels, and financial metrics remained robust. We believe that OPPD has adequate rate-raising flexibility to absorb modest rate pressures related to projected growth, albeit constrained by below-average incomes. S&P Global Ratings believes that unsustainably strong business and consumer economic activity that is driving inflation will likely lead to higher interest rates and will ultimately produce an economic slowdown. Yet, although we see an economic weakening on the horizon, we no longer foresee imminent recession risk. (See "Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer," published June 26, 2023, on RatingsDirect.) Consequently, we continue to monitor the strength and stability of public power electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion because elevated consumer prices and interest rates will likely continue whittling discretionary incomes.

Governance risks are also credit neutral relative to those of OPPD's peers. The utility has rate-setting autonomy and generally credit-supportive financial policies, although we note that a lack of hedging policies represents an increasing credit risk as the district transitions to more gas-fired generation.

Outlook

The stable outlook reflects our view of OPPD's financial profile, with robust liquidity and FCC providing cushion against rising leverage.

Downside scenario

Although we do not anticipate lowering the rating, we could take a negative rating action if there are inflationary pressures, regulatory pressures, capital pressures, or insufficient cost recovery, leading to FCC and liquidity falling significantly below levels of the past several years and projected over the next five years.

Upside scenario

Given growth pressures, below-average incomes that provide a constraint to rate-raising flexibility, an ambitious capital spending plan, and significant near-term reliance on coal-fired generation, we do not anticipate raising the rating over the next two years.

Credit Opinion

Demand growth, highlighted by data center expansions

Although the demand growth is across all customer classes, the bulk is in industrial loads, largely attributable to the data centers. Since 2019, Google and Facebook have announced more than \$3 billion in combined spending and expansion projects to their respective data centers within the OPPD service territory. We understand that both companies have procured renewable resources that will hedge market-priced power purchases wheeled from OPPD. Facebook and Google are under a rate tariff that includes a demand charge (with margin) and the pass-through of market price of power. Insofar as market purchases are a direct pass-through to the data centers, there is only a modest impact to operating revenue, related to the demand charges. Therefore, we do not believe that OPPD bears cost risk related to providing power to these data centers, although we do note that the demand charges provide support for OPPD's total fixed costs. We also acknowledge that the data centers present OPPD with a degree of counterparty exposure, both enterprises are highly rated entities that have posted sureties to support OPPD's capital investment, and they represent minimal risk to OPPD's credit quality. OPPD's top 10 customers, which accounted for 15% of revenue in 2022, are projected to account for 19% by 2027, and in our view is not a credit concern. Because the power costs are a straight pass-through to the data centers, the fact that megawatt hour sales to the top 10 will more than double (from the current 17%) presents a lesser credit risk.

Capital plan and impact on rates and financial metrics

The district currently has about 3,000 MW of accredited owned and purchased generation, and nearly 1,000 MW of nonaccredited, renewable generation. OPPD projects peak demand will increase 100 MW annually over the next several years. Combined with higher SPP reserve requirements, OPPD plans to add about 1,000 MW of wind and solar, 125 MW of battery storage, 600 MW of gas-fired combustion turbines to meet the increasing demand, higher SPP reserve requirements, and to address its decarbonization goals in the near term. The district's 2023-2027 capital plan totals \$3.2 billion, with about half financed with debt. For planning purposes, OPPD has assumed that the renewables will be half-owned (for example, a capital cost), and half under power purchase agreements (such as operating expenses).

We do not anticipate that supply-chain disruptions and SPP interconnection approval delays for TCS and SBLs will materially affect OPPD's credit quality. The supply-chain disruptions have forced a one-year delay to construction of TCS (450 MW combustion turbine) and SBLs (150 MW quick-start reciprocating engines), which are now expected to be completed in 2024. The combined cost of the two projects is estimated at \$720 million. OPPD has received interim approval from SPP for their connection to the grid, enabling them to be placed in service when construction is completed. However, they will not qualify as accredited capacity until full interconnection approval is received, now anticipated to be in 2026. Accordingly (and to meet increasing SPP reserve requirements), we believe that OPPD has prudently delayed the coal-to-gas conversion of its North Omaha Station (NOS) units 4 and 5, and the retirement of its

NOS gas units 1-3 until such time, ensuring sufficient load serving and reserve capacity.

Omaha Public Power District, Nebraska--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2022	2021	2020
Operational metrics			
Electric customer accounts	401,410	395,437	390,334
% of electric retail revenues from residential customers	35	39	48
Top 10 electric customers' revenues as % of total electric operating revenue	15	13	N.A.
Service area median household effective buying income as % of U.S.	89	88	88
Weighted average retail electric rate as % of state	102	102	102
Financial metrics			
Gross revenues (\$000s)	1,410,979	1,447,941	1,037,043
Total operating expenses less depreciation and amortization (\$000s)	1,144,838	1,203,680	793,091
Debt service (\$000s)	132,676	116,164	120,227
Debt service coverage (x)	2.0	2.1	2.0
Fixed-charge coverage (x)	1.7	1.7	1.7
Total available liquidity (\$000s)*	917,936	717,858	595,957
Days' liquidity	293	218	274
Total on-balance-sheet debt (\$000s)	2,610,225	2,280,900	1,925,302
Debt-to-capitalization (%)	66	63	59

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 22, 2023)

Omaha Pub Pwr Dist elect sys rev bnds 2019 ser A due 02/01/2034		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Omaha Pub Pwr Dist elec sys subord program		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Omaha Pub Pwr Dist elec (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Omaha Pub Pwr Dist elec (MBIA) (National)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Omaha Pub Pwr Dist CP Program		
<i>Short Term Rating</i>	A-1+	Affirmed

Ratings Detail (As Of September 22, 2023) (cont.)

Omaha Pub Pwr Dist RETELEC

Long Term Rating

AA/Stable

Affirmed

Many issues are enhanced by bond insurance.

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