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# Omaha Public Power District, Nebraska; Retail Electric

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# Omaha Public Power District, Nebraska; Retail Electric

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|---|---|---|
| US$289.365 mil elec sys rev bnds ser 2024 C due 02/01/2054 | | |
| *Long Term Rating* | AA/Stable | New |

## Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to the Omaha Public Power District (OPPD, or the district), Neb.'s approximately $396 million senior-lien electric system revenue bonds, series 2024C and 2024D.
- The outlook is stable.

### Security

The 2024C and 2024D bonds are split between new-money ($289 million series 2024A) and refunding bonds (approximately $107 million series 2024D). The 2024C bonds are being issued for general capital purposes, including reimbursement of capital outlays for generation facilities, supporting its goal of achieving net-zero carbon emissions by 2050. The 2024D bonds are being issued to refund outstanding 2015 series A, B, and C bonds.

The bonds are secured by a pledge of the net revenue of OPPD's electric system. At fiscal year-end 2023, the district had $2.8 billion of senior- and subordinate-lien debt outstanding; the latter was subsequently refunded by a senior-lien issuance earlier this year. OPPD has authority to issue up to $350 million of commercial paper (CP) and had two credit lines totaling $450 million at fiscal year-end 2023. (We understand that the district increased its lines to $600 million after fiscal year-end, with $569 million of undrawn capacity as of Sept. 30, 2024, $350 million of which was committed to support outstanding CP). 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.

### 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 $3.8 billion capital program (2025-2029), spurred by a combination of demand growth (primarily attributable to 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 increased to 15% in 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 includes the City of Omaha and all or portions of 13 Nebraska counties, serving 407,000 meters. Residential customers, which account for one-third of operating revenue, provide stability to the

district's demand profile.

- Electric demand growth (6.5% compound annual growth) is strong, with data centers expected to account for about two-thirds of all growth over the next three years. 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 OPPD will not be exposed to variable power costs due to the pass-through of energy at market prices.
- 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 2022, the most recent year of available comparative information. Despite significant capital spending plans, increasing sales to an expanding high-load factor industrial class will mitigate the need for future rate increases, which are estimated to average 4% per year over the 2025-2029 period, which we view as manageable. An automatic power cost adjustment mechanism, triggered annually, provides modest (although potentially lagging) protection against under-recovery, but robust liquidity mitigates this credit risk.
- Fixed-cost coverage (FCC) has averaged a robust 1.67x over fiscal years 2021-2023 and is projected to be slightly higher through 2028 (despite increasing fixed costs associated with 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 is also robust, with $912 million in available reserves (including $170 million of undrawn capacity on credit lines), measuring 315 days of operating expenses at fiscal year-end 2023 (or 257 days without the lines). Management projects maintaining days' liquidity near this level through 2028. We note that the utility now has a commodity risk policy that hedges coal, power, and natural gas. (Gas-fired generation currently accounts for only a small percentage of energy--about 5%). OPPD's natural gas hedging is currently in a trial phase, but is expected to be operational as a liquidity protective measure prior to the new gas-fired resources coming online as unaccredited capacity in late 2024 or early 2025 (with accreditation expected by 2026, pending interconnection approval). We also note that OPPD's capital plan includes the addition of fuel oil capability and storage at existing gas generation facilities to improve resiliency.

The rating reflects our opinion of the following credit risks:

- OPPD's power supply remains coal dependent (60% of energy in 2023). Despite load growth and the incremental transition to lower carbon intensity resources in pursuit of its net-zero carbon emissions by 2050 goal, management nevertheless expects coal-fired generation will still be a significant component (38%) of its power supply by 2033. We believe this will continue to expose the utility to future emission regulations, which we view as inevitable.
- The electric system is moderately leveraged, with $3 billion of total debt (including separately secured separate system debt and CP) at fiscal year-end 2023, measuring 66% of total capitalization. Debt-to-capitalization is projected to remain near this level through 2028, despite the district's sizable $3.8 billion capital plan (fiscal years 2025-2029). About 61% of the funding is expected to be debt financed, with the remainder internally funded.

The engineer, procure, and construct (EPC) contractor for the Turtle Creek Station (TCS) and Standing Bear Lake Station (SBLS) natural gas generation projects currently under construction, Zachry Industrial Inc., has filed for bankruptcy protection due to cost overruns on an unrelated (non-OPPD) project in Texas. Nevertheless, we understand that Zachary is continuing its work on SBLS and TCS and has posted sureties to support the EPC contract in amounts that OPPD believes would be more than sufficient to finance project completion should Zachary fail to

perform and need to be replaced. Therefore, OPPD does not anticipate further delays or increases to the combined project cost ($756 million). Construction is more than 94% complete.

### 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 (60% of energy in 2023), but we also note that the utility has substantial renewables (31% of energy) and zero-emission hydroelectric (4%). 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 or eliminate coal-fired generation, and add a substantial amount of renewables, storage, and gas-fired combustion turbines. The layering in of these new resources is proceeding as per schedule. OPPD projects that by 2033, coal, renewables, hydro, and gas will account for 38%, 55%, 2%, and 5%, respectively, 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: Demand has continued to grow, delinquencies and arrearages are in line with pre-pandemic levels, and robust financial metrics have been maintained. We believe that OPPD has adequate rate-raising flexibility to absorb modest rate pressures related to projected growth, albeit constrained by below-average incomes. We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Inflation as measured by the Consumer Price Index (CPI) has remained above 3% in recent months, and S&P Global Economics forecasts elevated interest rates persisting at least until December. (See "Persistent Above-Target Inflation Will Delay The Start Of Rate Cuts In The U.S.," published May 1, 2024, on RatingsDirect). In addition, Bureau of Labor Statistics data show that electricity price inflation continues to outpace the overall CPI. The amalgam of material increases in delinquent consumer, credit card, and auto loans, along with the resumption of student loan payments and drawdowns of household savings garnered during the pandemic, will likely compound the financial pressures facing electricity consumers.

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, and we note that its adoption of commodity risk policies helps to support the district's creditworthiness.

## 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 inflationary, regulatory, or capital pressures, or insufficient cost recovery lead to FCC and liquidity falling significantly below levels of the past several years and projected over the next five years.

### Upside scenario

Given OPPD's growth pressures, below-average incomes that constrain 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 demand is growing 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 for 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 the market price of power. Insofar as market purchases are a direct pass-through to the data centers, there is only a modest effect on 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 note that the demand charges provide support for OPPD's total fixed costs. We also acknowledge that the data centers present the utility 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 manageable risk to its credit quality. OPPD's top 10 customers, which accounted for 15% of revenue in 2023, are projected to account for 26% by 2028; in our view, this will not pose undue credit risk. Because the power costs are a straight pass-through to the data centers, the fact that megawatt (MW) hour sales to the top 10 customers will more than double presents a lesser credit risk.

### Capital plan and its effects on rates and financial metrics

The district currently has 3,100 MW of accredited owned and purchased generation, and about 711 MW of unaccredited, renewable generation. OPPD projects peak demand will increase 100 MW annually over the next several years. Combined with higher Southwest Power Pool (SPP) reserve requirements, OPPD plans to add about 1,000 MW of wind and solar, 125 MW of battery storage, and 900 MW of gas-fired combustion turbines to meet the increasing demand and higher SPP reserve requirements, and to address its decarbonization goals in the near term. The district's 2025-2029 capital plan totals $3.8 billion, with about 61% financed with debt. For planning purposes, OPPD has assumed that the renewables will be half-owned (a capital cost--debt or internally funded), and half under power purchase agreements (an operating expense).

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 delay in construction of SBLS (150 MW quick-start reciprocating engines) and TCS (450 MW combustion turbine), which are now expected to be completed in December 2024 and January 2025, respectively. The combined cost of the two projects is estimated at $756 million. OPPD has received interim approval from SPP for its connection to the grid, enabling it to be placed in service when construction is completed. However, the utility will not qualify as accredited capacity until full interconnection approval is received, now anticipated to be as late as 2026. Accordingly (and to meet the heightened SPP reserve requirements), in our opinion, 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.

**Table 1**

**Omaha Public Power District, Nebraska--Key credit metrics**

| | --Fiscal year ended Dec. 31-- | | |
|---|---|---|---|
| | **2023** | **2022** | **2021** |
| **Operational metrics** | | | |
| Electric customer accounts | 407,456 | 401,410 | 395,437 |
| % of electric retail revenues from residential customers | 42 | 42 | 39 |
| Top 10 electric customers' revenues as % of total electric operating revenue | 18 | 15 | 13 |
| Service area median household effective buying income as % of U.S. | 89 | 89 | 88 |
| Weighted average retail electric rate as % of state | 102 | 102 | 102 |
| **Financial metrics** | | | |
| Gross revenues ($000s) | 1,374,713 | 1,349,338 | 1,447,941 |
| Total operating expenses less depreciation and amortization ($000s) | 1,056,779 | 1,093,043 | 1,209,040 |
| Debt service ($000s) | 158,819 | 132,676 | 116,164 |
| Debt service coverage (x) | 2.0 | 1.9 | 2.1 |
| Fixed-charge coverage (x) | 1.7 | 1.6 | 1.7 |
| Total available liquidity ($000s)* | 912,475 | 917,936 | 717,858 |
| Days' liquidity | 315 | 307 | 217 |
| Total on-balance-sheet debt ($000s) | 3,018,200 | 2,610,225 | 2,280,900 |
| Debt-to-capitalization (%) | 66 | 66 | 63 |

*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

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