S&P Global
Ratings

RatingsDirect®

Omaha Public Power District, Nebraska; CP; Retail Electric

Primary Credit Analyst:
Jeffrey M Panger, New York + 1 (212) 438 2076; jeff.panger@spglobal.com

Secondary Contact:
Doug Snider, Centennial + 1 (303) 721 4709; doug.snider@spglobal.com

Table Of Contents

Omaha Public Power District, Nebraska; CP; Retail Electric

Credit Profile		
US$303.445 mil elec sys rev bnds ser 2022A due 02/01/2052		
Long Term Rating	AA/Stable	New
US$70.03 mil elec sys rev bnds ser 2022B due 02/01/2052		
Long Term Rating	AA/Stable	New
Omaha Pub Pwr Dist elec		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to the Omaha Public Power District (OPPD), Neb.'s $373.475 million senior-lien electric system revenue bonds, 2022 series A&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+' rating on the district's commercial paper (CP).
- The outlook, where applicable, is stable.

Security

The 2022A bonds are being issued for general capital purposes of the district, including natural gas facilities that are a component of the district's Power with Purpose strategic plan. The 2022B bonds are being issued to refund $75 million in CP notes outstanding.

The senior- and subordinate-lien 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. In March 2021, OPPD increased its CP authorization to $350 million from $250 million, and secured an additional $200 million line of credit, bringing total liquidity facilities to $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.

Credit overview

Key credit strengths, in our view, include a strong and diverse 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 is OPPD's sizable carbon footprint, although it is expected to decline toward the end of the decade; and a large capital spending plan supported by increasing debt.

In our view, OPPD's enterprise risk profile reflects the following:

- A deep and diverse service area, which includes the City of Omaha and all or portions of 13 Nebraska counties, serves 395,000 primarily residential retail customers, providing stability to the district's demand profile, which has performed well despite the COVID-19 pandemic. In our view, management has appropriately mitigated risks to energy sales and power supply stemming from increasing customer concentration related to Google and Facebook data centers.

- OPPD's power supply remains coal dependent (66% of energy in 2021, up from 57% in 2020). However, we note that the district is transitioning to lower carbon intensity. Over the next several years, OPPD expects to add up to 600 megawatts (MW) of solar generation and a like amount of quick-start gas-fired capacity (to firm up delivery from intermittent renewables); and plans to convert its North Omaha Station units 4 and 5 from coal to a dual-fuel resource: simple cycle natural gas/fuel oil. Nevertheless, OPPD expects that coal will still account for a sizable portion of energy (64% in 2026), and we believe that this will continue to expose the utility to future emission regulations, which we view as inevitable.
- OPPD has a competitive market position, as average revenue per kilowatt-hour is slightly below the state average as of 2020, the most recent year of available comparative information. The district raised rates 2.5% in 2022, and is considering additional rate increases in 2023 and 2024 that we would view as manageable. Although other Nebraska utilities are also planning rate increases, we anticipate that OPPD's rates will rise from slightly below average to slightly above average, and this view is incorporated in our current rating. The district has an automatic power cost adjustment mechanism that is triggered annually, providing modest (although potentially lagging) protection against under-recovery. Management can employ the adjustment more frequently; although we understand that it has not done so historically, we also note that it has not needed to do so.

The financial risk profile reflects our view of the following:

- Fixed cost coverage (FCC) has averaged 1.72x over fiscal years 2019-2021. Based on management's projections, we calculate FCC will range between 1.71x and 1.95x through 2026, despite increasing fixed costs associated with higher debt and additional renewable resources.
- At fiscal year-end 2021, OPPD had $718 million of liquidity, measuring 218 days of operating expenses. We note that the utility does not hedge natural gas purchases; in our view, this will represent an increasing credit risk as OPPD brings on additional gas-fired capacity to firm-up increasing renewable generation.
- The electric system is moderately leveraged, with $2.3 billion of total debt (including separately secured separate system debt) at fiscal year-end 2021, measuring 63% of total capitalization. We anticipate that this ratio will increase over the next five years, as the utility's draft capital plan (pending board approval) totals $2.8 million, with about half financed with debt.

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 (63% of generation production in 2021), but we also note that the utility has substantial renewables, which accounted for 28% of generation production. OPPD is developing a plan to further decarbonize generation over the next 30 years, adding utility-scale solar and quick-start gas units, and converting North Omaha Station units 4 and 5 from coal to natural gas. We understand that these plans have been delayed as OPPD awaits Southwest Power Pool (SPP) approval to integrate the solar and quick-start gas units into the grid. Nevertheless, we do not expect the delay will materially affect its long-term plan to achieve net zero carbon by 2050.

We view social risks as credit neutral, and primarily related to rates that are near Nebraska's state average, and the financial and operational effects of the pandemic and attendant impact on the economy. The pandemic had a minimal impact on OPPD's financial operations, and delinquencies and arrearages are in line with pre-pandemic levels. We believe that OPPD has adequate rate-raising flexibility to absorb this potential pressure, with average electric rates and a low unemployment rate, albeit constrained by below-average incomes.

Governance risks are also credit neutral relative to those of OPPD's peers, as the utility has rate-setting autonomy and generally credit-supportive policies.

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, or insufficient cost recovery, leading to FCC and liquidity falling significantly below levels of the past several years.

Upside scenario

Although unlikely over the two-year outlook horizon, we could raise the rating if liquidity significantly improves. However, we would weigh improvement in the financial profile against our evaluation of the district's substantial (although improving) carbon footprint and below-average income levels.

Credit Opinion

OPPD provides electric service covering a very large 5,000-square-mile area, with a population base of about 853,000. The service area includes the City of Omaha (population 467,000); all of Douglas, Sarpy, and Washington counties; and portions of 10 other Nebraska counties. Omaha is home to several Fortune 500 companies (Berkshire Hathaway, Union Pacific Railroad, Kiewit Corp., and Mutual of Omaha), and higher education institutions (University of Nebraska-Omaha, with about 13,000 students; and Creighton University, with about 8,000), which, in our view, adds stability.

Enterprise Risk

OPPD has about 395,000 customers, and in our view, the size and scale of the utility provides the district with operational flexibility. Customer and demand growth have been modest in the past several years, which is consistent with national trends. Retail sales are distributed evenly across residential, commercial, and industrial classes. Although several Fortune 500 companies are in the service area, concentration is not a credit risk because the top 10 customers account for less than 15% of revenue. The bulk of the district's off-system sales are to participants in the separately secured Nebraska City unit 2 project; the remainder are off-peak sales of surplus power from base-load plants. Except for some market price exposure, the utility does not assume large business risks associated with these wholesale energy sales because they are contingent upon plant and system availability, thereby avoiding the risk of having to source power elsewhere when the plants are not operating.

Google plans to establish a data center in the OPPD service area by 2023, joining Facebook, which also has a large presence. Although details of the Google and Facebook loads are not available, we anticipate that customer concentration will rise moderately over the next five years, but not to a level that would change our assessment of OPPD's economic fundamentals. Moreover, we understand that OPPD will serve these customers with market-priced power that insulates the district from power cost volatility.

Median household effective buying income is 95% of the national average, but in our view, it adequately supports rate-raising flexibility. The unemployment rate--2.8% in June 2022--is well below the national level. Management reports that the low unemployment rates have not had a material impact on the utility's staffing needs.

OPPD is a vertically integrated utility, with baseload assets exhibiting generally good availability factors, substantial remaining useful life, and producing low-cost power. OPPD sells all resources to, and buys all energy needs from, the SPP, with sales and purchases running approximately in tandem, and variances recovered through the utility's fuel and purchased power cost adjustor.

Owned generation accounts for about three-quarters of the district's total energy requirements. To reduce reliance on its baseload coal units, OPPD has been restructuring its power supply portfolio over the past several years, adding significant wind capacity and retiring a nuclear unit (Fort Calhoun), while also implementing programs to help reduce demand.

However, OPPD remains reliant on coal-fired generation--a product of its proximity to coal basins and its excellent access to rail transportation. Coal-fired generation accounted for 66% of energy needs in 2021 (up from 57% in 2020), while wind resources accounted for 28%, and natural gas accounted for 3%. While the district is reducing its reliance, bringing on renewables and adding quick-start gas units, its carbon footprint is not expected to change appreciably until after 2026.

OPPD is adding 400MW-600MW of solar power purchase agreements (PPAs) by 2026, and is constructing 600 MW of dual-fuel, quick-start natural gas/oil units--Turtle Creek and Standing Bear Lake stations--under full turnkey engineering, procurement, and construction contracts. The new units will have onsite oil storage and firm winter gas supply, enhancing operational resiliency. The units are being constructed at a cost of about $650 million, with about $520 million to be debt financed, including the 2022A bonds.

The quick-start units were originally expected to be placed in service in 2023, but approval for integration into SPP has been delayed due a backlog of approval requests for other projects coming on-line. Accordingly, the district has delayed plans to retire its North Omaha Station (NOS) units 1-3 (natural gas), as well as plans to repower NOS units 4 and 5 from coal to natural gas to mitigate risk associated with the delayed integration into SPP. Once these are approved for integration, OPPD will proceed with the repowering/retirement plans for NOS.

We view management, planning, and policies as credit positives. Key executives are long tenured, either at the district or at other large utilities, and conduct succession planning that we believe is supportive of a deep bench. In our opinion, management has a history of conservative stewardship of the utility, highlighted by a robust set of policies governing enterprise risk management, coverage metrics, and carbon reduction. The utility produces annually updated strategic plans, financial forecasts, and capital plans, which we believe support financial stability.

In our view, rate-setting practices are credit supportive. OPPD has full rate-setting autonomy and the board has the sole authority to establish and adjust electric service rates. The utility has historically adopted base-rate increases when necessary to maintain robust coverage metrics and liquidity. The district reviews budget-to-actual variances monthly; its power and fuel cost adjustment mechanism is triggered automatically on an annual basis (with true-up over the ensuing 12 months), although management can adjust rates more frequently.

OPPD's rates are slightly below the state average. According to the U.S. Department of Energy's Energy Information Administration, the district's weighted-average system rate was 98% of the state average in 2020, the most recent year of available comparative information. We note that the district raised base rates by 2.5% in 2022, and that its financial forecast suggests moderate rate increases in fiscal years 2023 and 2024 (yet to be adopted).

Financial Risk

OPPD has a record of producing robust and stable financial metrics. We calculate FCC as averaging 1.72x through fiscal years 2019-2021; FCC is our primary coverage metric, and treats payments in lieu of taxes (PILOT) as an operating expense. (The district makes PILOT transfers annually to each county in which it sells electricity equal to 5% of gross revenues.) FCC also treats as debt all demand and capacity payments, and 50% of renewables under PPAs. (Our metrics also reflect adjustments to OPPD's audited financial statement, removing revenue, expenses, and debt service related to the separately secured Nebraska City 2 project). Management's projections, which we view as based on credible assumptions, suggest that FCC will exceed 1.7x over the next five years, and, in our view, this would continue to support the assessment.

Although natural gas accounts for a small 3% of energy, the extreme weather event in the region in February 2021 resulted in a substantial ($60 million) increase in OPPD's gas costs in fiscal 2021; nevertheless, relative to the size and scope of its operating and financial profiles, and given actions taken that reduced the budgetary net revenue impact ($10 million), OPPD will be able absorb the higher costs without a meaningful effect on rates, financial metrics, or leverage. The utility does not hedge natural gas purchases; in our view, this will represent an increasing credit risk as OPPD brings on additional gas-fired capacity to firm up increasing renewable generation.

In our view, OPPD has very strong liquidity, composed of cash, unrestricted investments in its electric revenue fund, unrestricted construction funds (representing reimbursements for capital outlay), rate stabilization funds, and amounts on its lines of credit above CP outstanding. At fiscal-year-end 2021, liquidity totaled $718 million, or 218 days of operating expenses. OPPD projects maintaining liquidity in this range over the next five years.

In our view, OPPD is moderately leveraged, with about $2 billion in debt, representing 63% of total capitalization at fiscal year-end 2021. The district's preliminary capital plan, which is subject to board approval, measures $2.8 billion, with about half to be debt financed, so we expect that debt to capitalization will rise modestly.

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 2, 2022)		
Omaha Pub Pwr Dist elect sys rev bnds 2019 ser A due 02/01/2034		
Long Term Rating	AA/Stable	Affirmed
Omaha Pub Pwr Dist elec sys subord program		
Long Term Rating	AA-/Stable	Affirmed
Omaha Pub Pwr Dist elec (AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Omaha Pub Pwr Dist elec (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Omaha Pub Pwr Dist CP Program		
Short Term Rating	A-1+	Affirmed
Omaha Pub Pwr Dist RETELEC		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.