MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Omaha Public Power District, NE's Electric Revenue Bonds, 2022 Series A and B bonds; Outlook stable

17 Aug 2022

Approximately $377 million of debt affected

New York, August 17, 2022 -- Moody's Investors Service, ("Moody's") has assigned Aa2 to Omaha Public Power District, NE's (OPPD) $307 million of Electric System Revenue Bonds, 2022 Series A and $70 million of Electric System Revenue Bonds, 2022 Series B. The outlook is stable.

RATINGS RATIONALE

Omaha Public Power District's (OPPD or the district, Aa2 senior, Aa3 subordinate, stable outlook) rating reflects the utility's strong service area, competitive rates, and history of sound debt service coverage ratio (DSCR) and liquidity. Over the last three years, OPPD has achieved DSCR averaging 2.35x while adjusted liquidity on hand has averaged around 202 days. Further supporting the district's credit quality is its location in an all public power state with no indirect competition from investor owned utilities. The district's credit quality also considers elevated exposure to carbon transition risk given the district's reliance on coal fired generation for a majority of its power supply, high Moody's adjusted debt ratio at around 106%, below average sizing of the debt service reserve, and continuing exposure to the decommissioning of the Fort Calhoun (FCS) nuclear plant. On the latter, OPPD has made substantial progress as it expects to complete the decommissioning by 2025.

For 2021, OPPD performed better than expected with DSCR of 2.31x and adjusted liquidity on hand of 241 days given an improving economy. Previously, we incorporated the assumption that higher costs caused by winter storm Uri in February 2021 would result in a modest decline to financial metrics relative to the historical average. OPPD's service area has improved over the last year with unemployment in the Omaha-Council Bluffs, NE-IA Metropolitan Statistical Area at 2.6% as of June 2022, which is lower than the 3.5% rate a year earlier and also the national unemployment rate of 3.6% in June 2022. Given the strong local economy, we expect the district's financial performance in 2022 will be similar or better than 2021.

Looking past 2022, OPPD has significantly increased its outlook for capital spending as it seeks to meet its long-term goal of net zero by 2050. The increased spending could result in a significant increase to total debt and scheduled debt service which is further exacerbated by the rapid increase to underlying interest rates. If offsetting actions are not taken, OPPD's financial metrics will likely weaken that could negatively pressure its credit quality. That said, we currently incorporate the assumption that OPPD will maintain DSCR and liquidity metrics commensurate with its past given the district's long-standing commitment to maintain its credit quality.

RATING OUTLOOK

The stable outlook reflects OPPD's strong service area and our expectation that the district's will maintain financial metrics generally commensurate with historical performance with DSCR around 2.3x and adjusted liquidity on hand well above 200 days.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Successful reduction of carbon transition risk while maintaining well over 300 adjusted days liquidity on hand and total DSCR well above 2.50x

- Substantial decrease to the district's adjusted debt ratio to well below 65%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material weakening of service area

- Total DSCR falls below 2.0x or adjusted days liquidity on hand falls below 175 days on a sustained basis

- Failure to pass through cost increases

LEGAL SECURITY

Senior lien bonds benefit from the first claim on the electric system's net revenues, subordinate lien bonds and the commercial paper program have a second lien on the system's net revenues. The rate covenant requires net revenues to be sum sufficient for all outstanding debt. The additional bonds test requires net revenue coverage of senior lien debt service to be at least 1.4x and coverage of subordinate lien debt service to be 1.0x both as defined under OPPD's bond resolution. The debt service reserve fund requirement for the senior bonds is low at maximum annual interest and there is no debt service reserve fund for the subordinate bonds. However, the annual interest amount of the debt represented about six months of total annual debt service in 2021. The reserve is cash funded.

USE OF PROCEEDS

Proceeds from the 2022 Series A and B bonds will be used to fund capital spending, refund $75 million of commercial paper, fund incremental reserves, and pay transaction costs.

PROFILE

OPPD is a public corporation and political subdivision of the state of Nebraska. The district provides electric service in the City of Omaha, and adjacent territories comprising all of Douglas, Sarpy and Washington counties and a portion of Cass, Saunders, Dodge, Otoe, Nemaha, Johnson, Pawnee, Richardson, Burt and Colfax counties. The utility serves a population of approximately 853,000 people in 13 counties, more than any other utility in the state, while covering more than 5,000 miles in service area territory.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://ratings.moodys.com/api/rmc-documents/63746 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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