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Research Update:

Omaha Public Power District, NE Rating Outlook Revised To Negative After Nebraska PPD Outlook Revision

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Overview

- S&P Global Ratings has revised its outlook to negative from stable and affirmed its 'A+' rating on Omaha Public Power District (OPPD), Neb.'s separate system revenue bonds.
- OPPD's separate system bonds are secured by a pledge of wholesale revenue received from seven public power participants in its Nebraska City 2 project, including the Nebraska Public Power District (NPPD; 'A+/Negative'), which has a 47.34% share in the project prior to a 60% step-up requirement.
- In our view, NPPD's credit quality represents the weak link (after step-up) in the pledge on the separate system bonds issued by OPPD. Therefore, the outlook revision to negative on OPPD's separate system bonds reflects S&P Global Ratings' outlook revision to negative on NPPD's credit rating (see our research update on Nebraska Public Power District, published April 18, 2025, on RatingsDirect). S&P Global Ratings has revised its outlook to negative from stable and affirmed its 'A+' rating on OPPD's separate system revenue bonds.

Rationale

Security

The separate system bonds financed construction of the Nebraska City 2 (NC2) project, a 682-megawatt (MW) subcritical coal-fired facility adjacent to OPPD's Nebraska City Station Unit No. 1, south of Nebraska City. The project achieved commercial operation in 2009.

OPPD is the sole owner of NC2 and controls its operations and maintenance (O&M). OPPD retains 50% of the project's output. The remaining 50% is under participation agreements that comprise the separate system, with seven public power and municipal utilities in Nebraska, Missouri, and Minnesota.

The participants' rights to receive, and their obligations to pay costs for this 50%, are referred to as the separate system; the separate system bonds relate to this.

The participation agreements require each participant to pay its share of the cost to construct, finance, and operate NC2, allocable to the separate system. The payment obligation is absolute and unconditional, regardless of whether power is provided or NC2 is available. There is no force majeure exception, whether caused by natural factors or by OPPD's actions. In addition, each participant has a step-up obligation of up to 60% of its original allocation in the event of another participant's failure to make any payment under its participation agreement.

Credit highlights

The participants in the separate system, and their shares, are as follows:

- Nebraska Public Power District (NPPD; 157 MW; 47.34% share)
- Missouri Joint Municipal Electric Utility Commission (55 MW; 16.66%)
- Independence, Mo. (55 MW; 16.66%)
- Grand Island, Neb. (33 MW; 10.00%)
- Central Minnesota Municipal Power Agency (14 MW; 4.34%)
- Nebraska City (11 MW; 3.34%)
- Falls City, Neb. (6 MW; 1.66%)

As per our rating methodology for wholesale utilities, the rating on the separate system bonds reflects the credit quality of NPPD, the weakest participant among the strongest participants totaling 100% of entitlement after exercising the step-up. Although it is not a participant in the separate system, OPPD has committed to step-up for the first 50 MW of "orphaned" capacity and energy in the event of a default among the project participants.

In our view, the strongest participants (after consideration of the step-up) are as follows:

- Omaha Public Power District (‘AA/Stable’; 0 MW pre-step-up; 50 MW with step-up)
- Grand Island (Not publicly rated; 33 MW; 53 MW)
- NPPD (‘A+/Negative/A-1’; 157 MW; 251 MW)

The participation agreements ensure that there are no market or operational risks to cash flows servicing the separate system bonds. The rating on the bonds is therefore effectively the leading participants' credit quality, subject to the step-up provision.

The rating on the separate system bonds reflects the credit quality of NPPD which we see as the weak link among the strongest participants. NPPD is the largest participant, taking 157 MW, or about 47% of the separate system. The separate system has minimal liquidity needs. OPPD pays all operating costs, including fuel, and is reimbursed when participants pay their share of costs the following month. Therefore, it effectively manages the project's liquidity needs. For more information on OPPD, see our full analysis on Omaha Public Power District, published Oct. 31, 2024.

NPPD’s outlook revision reflects our view that debt issuances we anticipate will be needed to finance its increasing capital needs to support load growth are increasingly likely to produce negative financial pressures unless it extends the limited remaining 10-year term of existing contracts for the sale of wholesale power. For more information on NPPD, see our research update on Nebraska Public Power District, published April 18, 2025, on RatingsDirect.

For all participants except NPPD, separate system O&M payments are pari passu with their own O&M costs. For NPPD, all payments are pari passu with its general system bonds. Participants had the choice of self-financing their share of the construction costs or having OPPD issue separate system bonds on their behalf. Two of the participants, NPPD and Falls City, either cash-funded or separately financed their construction installments and are consequently not responsible for making debt service payments on the separate system bonds. However, they are obligated to make step-up payments if a default by other participants necessitates it.

Environmental, social, and governance

The project participants have substantial carbon footprints, and NC2 is coal-fired. As a general matter, the participants are exposed to adopted and announced Environmental Protection Agency regulatory measures, although NC2 complies with existing regulations. However, the participants remain exposed to potential costs associated with the proposed regulation of greenhouse gas emissions. We believe further regulation of greenhouse gas emissions is inevitable. We have not factored this into the rating at this time but we will do so when future regulation becomes clear.

Social factors are credit neutral. We continue to monitor the strength and stability of electric utilities' revenue streams given ongoing inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), coupled with higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. S&P Global Ratings believes the administration's imposition of tariffs could exacerbate inflation by 50-70 basis points but observes that forecasting the duration and impact of tariffs is complicated by the high degree of unpredictability around policy implementation (see "Liberation Day" Tariff Announcements: First Take On What It Means For U.S. And Global Outlook," published April 3, 2025). The economy's stressors and the associated financial pressures consumers face might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which in turn could weaken utilities' financial metrics.

Governance factors are considered credit neutral and reflect the governance of the project participants.

Outlook

The outlook reflects the negative outlook on the rating of NPPD. A change in the rating on NPPD, (or potentially on other participants), will affect the rating or outlook on the bonds in accordance with the step-up approach employed.

Downside scenario

We could lower the rating on the bonds if we were to lower our rating on NPPD by at least one notch, or if our view of Grand Island's credit quality falls below that of NPPD, or our rating on OPPD's retail utility rating is lowered by at least three notches.

Upside scenario

Upside potential is tied to improvement in NPPD's credit quality.

Ratings List		
Outlook Action		
	To	**From**

Ratings List		
Pooled		
Omaha Pub Pwr Dist, NE Wholesale Electric System Nebraska City Unit 2	A+/Negative	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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