



Rating Action: Moody's assigns Aa2 to Omaha Public Power District, NE's Electric Revenue Bonds, 2023 Series A and B bonds and affirms existing ratings; Outlook stable

25 Sep 2023

Approximately \$3.1 billion of debt affected

New York, September 25, 2023 -- Moody's Investors Service, ("Moody's") has assigned Aa2 to Omaha Public Power District, NE's (OPPD) \$395 million of Electric System Revenue Bonds, 2023 Series A and \$209.1 million of Electric System Revenue Bonds, 2023 Series B. Moody's also affirmed OPPD's Aa2 rating on OPPD's electric system revenue bonds, Aa3 rating on its subordinated revenue bonds, and P-1 rating on its commercial paper program. The outlook is stable.

RATINGS RATIONALE

Omaha Public Power District's ratings reflect the utility's strong service area that has proven resilient through economic cycles, competitive rates, and strong debt service coverage (DSCR) and liquidity. For 2022, OPPD had total debt service coverage ratio (DSCR) of 2.33x and 303 days liquidity on hand. 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, and moderately below average sizing of the debt service reserve. OPPD's plans to transition away from coal fired generation is likely to lead to a substantial increase to debt, although the increase in leverage is expected to be more moderate owing to the planned funding of future capital expenditures and the benefit to the balance sheet of the incremental assets.

For 2022, OPPD's financial performance improved with total DSCR of 2.33x and adjusted liquidity on hand of 303 days compared to 1.57x DSCR and 241 adjusted liquidity on hand in 2021, which was negatively affected by a sharp rise to fuel and power purchase costs due to winter storm Uri. The utility's return to a strong financial performance in 2022 was supported by a base rate increase of 2.5% effective January 1, 2022 and a strong local economy. The unemployment rate in the Omaha-Council Bluffs, NE-IA Metropolitan Statistical Area was at 2.5% (P) as of July 2023, which is lower than the 3.5% rate for the US. For 2023, continued growth to the local economy and an effective 2.9% rate increase for higher fuel and purchase power costs should result in the utility achieving similar DSCR and adjusted days liquidity for 2023 as it did in 2022.

Looking past 2023, OPPD expects to issue a substantial amount of debt over time as it seeks to decarbonize its power supply portfolio and meet its long-term goal of net zero by 2050. The utility's plans through 2032 include new natural gas fired generation, the conversion of North Omaha units 4 & 5 to natural gas from coal, new battery storage, and 1 to 1.5 GW of new renewables either owned or contracted. The district also expects substantial load growth in its service area over time including new data centers. While the utility's debt burden will rise substantially, we expect OPPD will implement rate increases to maintain sound financial metrics including total DSCR well in excess of 2.0x, adjusted liquidity on hand well above 200 days, and leverage ratio moderately increasing.

RATING OUTLOOK

The stable outlook reflects OPPD's strong service area and our expectation that the district will maintain total DSCR well above 2.0x and adjusted liquidity on hand of well above 200 days.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

OPPD's rating could be upgraded if it successfully reduces carbon transition risk while maintaining well over 300 days liquidity on hand and total DSCR well above 2.50x or the district's adjusted debt ratio goes well below 65% while maintaining sound financial metrics.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

OPPD could be downgraded if there is material weakening of its service area, total DSCR materially falls below 2.0x or total days liquidity on hand falls below 175 days on a sustained basis or the district's willingness to raise rates with sound financial metrics weakens.

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 moderately below average at maximum annual interest and there is no debt service reserve fund for the subordinate bonds.

USE OF PROCEEDS

Proceeds from the issuances are expected to be used to fund construction, refinance all or part of the utility's subordinated bonds, fund incremental amounts into the debt service reserve, and pay for 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 878,000 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 the long-term ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. The principal methodology used in the short-term rating was US Municipal Short-term Debt Methodology published in May 2023 and available at <https://ratings.moodys.com/rmc-documents/398329>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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>.

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