THE BOND BUYER

Omaha Public Power District to bring $650 million of double-A bonds

By

Robert Slavin

Published

September 26, 2023, 11:55 a.m. EDT

The Omaha Public Power District will sell $650.5 million of double-A rated bonds within the next 10 days as a step to finance its aggressive capital program over the next few years.

The bonds will be $339.65 million in 2023 Series A new money and $310.9 million in Series B refunding bonds.

The bonds' maturities will be from 2025 to 2053, said District Chief Financial Officer Jeff Bishop. They will be sold with an optional redemption at par in 2033.

A view inside the Facebook/Meta data center in Papillion, Nebraska, when it opened in 2019. Data operations by Meta and Google parent Alphabet are driving electricity demand for the Omaha Public Power District. *Omaha Public Power District*

Bishop said he expected to sell the bonds sometime from Thursday to Oct. 6.

"We expect strong interest from our existing institutional and retail investors," Bishop said. He said he expected purchasers to be retail investors, trust funds, mutual funds, insurance companies and banks.

Goldman Sachs and Wells Fargo are the co-senior managers on the deal, with Goldman Sachs as bookrunner. Seven other underwriting firms are co-managers.

S&P Global Ratings and Moody's Investors Service affirmed their ratings ahead of the deal.

S&P Global Ratings rates the bonds AA with a stable outlook.

Moody's Investors Service rates the bonds the equivalent Aa2 with a stable outlook.

The bonds will be payable by a pledge of and lien on revenues, income, receipts and profits of the electric system.

"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," said S&P Director Jeffrey Panger and rating analyst Valentina Protasenko.

"Mitigating these strengths are OPPD's sizable $3.2 billion capital program (2023-2027), driven by a combination of demand growth (primarily attributable to Facebook's and Google's 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 reserve margin requirement, which is increasing to 15% for 2023 from 12%, with further increases anticipated over the next several years," the S&P analysts said Friday.

Bishop said half of the $3.2 billion capital program will be financed by bonds with the remainder of the money coming from operating revenue.

Among the credit risks S&P highlighted is that the district's system is "coal centered" with 56% of its electricity coming from coal in 2023. However, the district has plans to move towards less carbon releasing forms of electrical production.

S&P also noted the district's $2.6 billion in total debt as of the end of fiscal 2022.

"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," Moody's analysts wrote Monday.

While there is no retail order period, retail orders will take priority over institutional orders, Bishop said.

The Series B bonds are refunding subordinate debt and outstanding commercial paper.

The district has prepared a "roadshow" investor presentation for the bonds extolling the district's strengths, which said as of July 31 it had 159 days cash on hand. Its retail electric rates are 27% below the national average.

The roadshow also said demand in its operating area is expanding — population grew 3.8% 2018 to 2022 and median household income grew 12% from 2018 to 2021.

The district serves 5,000 square miles, which includes 47 cities and villages served at retail and four municipalities served at wholesale.

Meta and Alphabet, the parent companies of Facebook and Google, plan to expand their data facilities in the district's service area, a large factor in increased demand for electricity.

To respond to a projected steady increase in demand, district plans to add 2500 MW of capacity by 2030, according to its roadshow. The district currently has 3000 MW of accredited owned and purchased generation and 1000 MW of non-accredited renewable generation. "Non-accredited" means the regional transmission organization, Southwest Power Pool, does not include the 1000 MW in fulfilling the district's required load service capacity and 15% reserve requirement.

The district is dealing with environmental concerns about electrical production through its Power with Purpose program, which adds environmentally cleaner sources and it plans to achieve net zero carbon production by 2050.

On financial topics, the district says it can alter its fuel and purchased power costs adjustment at any time. In 2022 it had operating revenue of $1.401 billion and operating expenses of $1.310 billion, leading to operating income of $91 million. It had other expenses of $80 million, leading to net income of $11 million.

The district's 2022 revenues came from residential customers (34.3%), commercial customers (25%), industrial customers (21.7%), and off-system (19.1%). Its top 10 customers accounted for 14% of its revenues.

After the sale of the 2023A and 2023B bonds, the district anticipates nearly $180 million per year in pro-forma outstanding debt service from 2024 to 2038, then about $150 million from 2039 to 2045, then about $90 million from 2046 to 2051.

In the upcoming bonds sale, Kutak Rock is the bond counsel and Barclays Capital is the municipal advisor.

Goldman Sachs declined to comment for this story. Barclays Capital didn't respond to a request for a comment.

Nebraska is the only state in the U.S. where all power to businesses and homes is supplied by public utilities.