MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa1 to Energy Northwest's (WA) Project 1, Columbia Generating Station, and Project 3 electric revenue refunding bonds; Outlook is negative

15 Apr 2024

Approximately $835 million of debt affected

New York, April 15, 2024 -- Moody's Ratings has assigned Aa1 ratings to Energy Northwest, WA's $514.4 million of Columbia Generating Station (CGS) Electric Revenue and Refunding Bonds, Series 2024-A, $54.8 million of Project 3 (Project 3) Electric Revenue Refunding Bonds, Series 2024-A, $189.9 million of Project 1 (Project 1) Electric Revenue Refunding Bonds, Series 2024-B, $9.6 million of Columbia Generating Station Electric Revenue Bonds, Series 2024-B, and $66.9 million of Project 3 Electric Revenue Refunding Bonds, Series 2024-B. The rating outlook for Project 1, CGS, Project 3, and BPA is negative.

RATINGS RATIONALE

The Aa1 rating assignment on Energy Northwest, WA's (ENW's) Project 1, CGS, and Project 3's revenue refunding bonds considers Bonneville Power Administration's (BPA) contractual obligation to pay including debt service under each project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating.

BPA's Aa1 rating considers its strongly positioned and expansive network of hydro and transmission assets, access to competitive power, long-term power supply contracts with customers through 2028 and credit supportive attributes as a line agency of the Government of the United States of America (USA: Aaa negative). Borrowing ability under the US Treasury line and the ability to defer debt service payments to the US Treasury are two of the most critical support features from the US government. The credit profile also acknowledges credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like rate making process, environmental burdens, and low consolidated financial metrics relative to peers. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

As of February 13, 2024, BPA expects its reserves for risk to decline to $903 million by the end of FY2024 due to substantial customer credits and below average hydrology compared to $1.29 billion available at the end of FY 2023. This follows a decline from a recent peak of $1.51 billion in reserves for risk also due to significant customer credits and below average hydrology in FY 2023. The customers credits are according to its reserve policy that seeks 60 to 90 days of RAR on a consolidated basis and 60 to 120 days cash on hand for each business line and excess reserves can be used for other purposes including customer credits. Additional key developments include major settlements on certain long running environmental litigation, a credit positive, and the commencement of BPA's FY2024-2025 rate period. On the former, these settlements provide BPA greater certainty on future environmental costs without excessively burdening BPA's already large annual spending on fish and wildlife protection. On the latter, BPA's FY2024-2025 average tier 1 rate declined by less than 1% while the average transmission rate was unchanged.

BPA's negative outlook reflects the negative outlook on the USA and acknowledges BPA's close linkages with the US government given its role as a line agency of the US Department of Energy. BPA's most prominent connections with the US government are the $13.7 billion borrowing line with the US Treasury (increasing to $17.7 billion after FY2027), ability to defer debt service payments to the US Treasury, US Treasury holding onto BPA's cash in the Bonneville Fund, and ownership by other parts of the US government of most of the BPA associated hydropower assets. Furthermore, BPA employees are part of the pension plan for US federal civil service employees and most valid legal claims against BPA are paid by the separate US Judgement Fund. Given BPA's extensive dependence on the US government, the US government's credit quality serves as a constraint to BPA's overall rating with a one notch differential that considers BPA's weaker stand-alone credit profile.

RATING OUTLOOK

BPA's negative outlook considers the negative outlook on the US government. The outlook on Project 1, CGS, and Project 3 reflects the negative outlook on BPA.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- BPA's rating is unlikely to be upgraded given the negative outlook. However, BPA could be upgraded if the US government's rating is affirmed at Aaa and outlook revised to stable and BPA significantly improves its financial policies leading to sustained consolidated DSCR above 1.50x, internal liquidity in excess of 250 days cash on hand, and minimum net borrowing capacity under the US Treasury line in excess of $6 billion.

- The rating on BPA supported bonds could be upgraded if BPA is upgraded

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- BPA's rating could be downgraded if the US government's rating is downgraded, its financial policies are weakened or if its availability under the US Treasury line is severely diminished

LEGAL SECURITY

Project 1, CGS, and Project 3 revenue bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. The net billing agreement obligates the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project. In 2006, ENW and BPA adopted a voluntary, direct pay agreement whereby BPA directly pays ENW for amounts due under the net billing agreements. There are no debt service reserves.

USE OF PROCEEDS

Proceeds from Project 1 and Project 3 revenue bonds will be used to refund maturing or callable bonds to extend maturities and pay transaction costs. CGS will refund up to $372 million of debt extend debt maturities with the remainder of the proceeds used to fund capital spending at CGS and pay transaction costs. The debt maturity extensions are according to BPA's Regional Cooperation Debt 2 program.

PROFILE

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for 22 GW of federally owned hydro generation and 15,000 miles of electric transmission assets in the US Pacific Northwest spanning all or parts of eight states. The US Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. BPA's obligations are not backed by the full faith and credit of the US government and its cash payments are limited to funds available in the Bonneville Fund.

METHODOLOGY

The principal methodology used in these 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 . An additional methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at https://ratings.moodys.com/rmc-documents/396803 . 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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