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Summary:

Bonneville Power Administration, Oregon; Wholesale Electric

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Credit Profile

US\$529.565 mil Columbia Generating Station Elec Rev and Rfdg Bnds ser 2021A due 07/01/2042		
<i>Long Term Rating</i>	AA-/Stable	New
US\$100.83 mil Columbia Generating Station Electric Rev and Rfdg Bnds ser 2021B due 07/01/2034		
<i>Long Term Rating</i>	AA-/Stable	New
US\$69.29 mil Project 1 Electric Revenue Refunding Bonds ser 2021A due 07/01/2042		
<i>Long Term Rating</i>	AA-/Stable	New
US\$15.685 mil Project 3 Elect Rev Rfdg Bnds ser 2021A due 07/01/2042		
<i>Long Term Rating</i>	AA-/Stable	New
US\$0.39 mil Project 1 Elec Rev Rfdg Bnds ser 2021B due 07/01/2025		
<i>Long Term Rating</i>	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' rating to Energy Northwest (ENW), Wash.'s following series of proposed bonds:

- \$69.29 million Project 1 electric revenue refunding bonds, series 2021-A, due July 1, 2042
- \$529.565 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2021-A, due July 1, 2042
- \$15.685 million Project 3 electric revenue refunding bonds, series 2021-A, due July 1, 2042
- \$390,000 Project 1 electric revenue refunding bonds, series 2021-B (taxable), due July 1, 2025
- \$100.83 million Columbia Generating Station electric revenue and refunding bonds, series 2021-B (taxable), due July 1, 2034

The outlook is stable.

Bonneville Power Administration (BPA), Ore., will pay the bonds' debt service as operating expenses of its electric system.

At the same time, S&P Global Ratings affirmed its 'AA-' ratings on ENW's existing nuclear projects 1 and 3 as well as CGS' debt and additional nonfederal obligations, which BPA pays as an operating expense of its electric system.

ENW will use the bond proceeds to refund portions of its existing debt and for capital improvements.

S&P Global Ratings lowered its stand-alone credit profile (SACP) on BPA to 'a+' from 'aa-' to reflect the utility's sizable capital needs, its shrinking federal debt borrowing capacity, and limits on its indirect avenues for accessing capital

markets. The lower SACP does not affect the 'AA-' government-related-entity (GRE) rating.

Credit overview

The 'AA-' GRE rating on the nonfederal debt that BPA supports, including the ENW debt, reflects Bonneville's contractual obligations to support the debt and the application of our GRE criteria. We assess BPA's stand-alone credit profile to be 'a+' and believe there is a moderately high likelihood that the U.S. government would provide extraordinary support to the utility in a financial distress scenario. We base the latter on our opinion of the strong link between Bonneville and the federal government, as well as the important federal role the agency plays in the Pacific Northwest, which provides a one-notch rating uplift above the SACP.

A key rating factor remains Bonneville's legal authorization to pay nonfederal debt from net revenues before it services deferrable federal Treasury debt and appropriations.

Bonneville supports \$7.3 billion of nonfederal debt, which includes \$2.1 billion of lease obligations and the \$207 million balance remaining on 2013's \$340 million customer power prepayments. The utility uses nonfederal financing arrangements, including leases and energy prepayments by its customers, to help preserve federal borrowing capacity.

As of fiscal year-end 2020, in addition to \$1.5 billion of federal appropriations debt, Bonneville reported \$5.7 billion of Treasury bonds. Bonneville's Treasury borrowings are subject to a congressionally imposed \$7.7 billion borrowing limit, leaving \$2 billion of Treasury borrowing capacity at fiscal year-end 2020.

Almost two-thirds of the \$7.3 billion of nonfederal debt relates to ENW's nuclear projects. CGS is ENW's only completed and operating nuclear unit. BPA purchases CGS' output for resale to its customers. The incomplete nuclear units 1 and 3 had \$1.7 billion of debt as of March 31, 2021, which remains virtually unchanged from March 31, 2019 due to reamortization, and the operating CGS nuclear unit carries \$3.0 billion of debt.

Since 2014, Bonneville has been using ENW refunding transactions to defer the amortization of portions of the ENW debt it supports to create debt service savings that enable Bonneville to retire portions of higher-interest federal appropriation debt and to create cash flow that supports portions of capital needs. Applying cash to capital spending helps preserve Treasury borrowing capacity that is subject to the legislative cap. Bonneville labels its use of ENW debt extensions "regional cooperation debt refinancings." Since 2014, BPA has reamortized \$2.3 billion of ENW debt through refunding transactions. Due to the Treasury borrowing cap, the reamortization strategy is critical to its capital program because Bonneville projects \$4.8 billion of 2021-2025 capital spending needs. Bonneville is also responsible for \$566 million of ENW capital spending during the same period.

In addition, in 2016-2020, ENW entered into a series of short-term bank loans that deferred portions of operating expenses due from Bonneville, enabling Bonneville to accelerate expensive appropriations debt, which created sufficient cash flow at Bonneville that enabled Bonneville to fund the retirement of the bank loan and retire additional appropriations debt on an accelerated basis. Beginning in 2021 and extending through 2030, ENW will issue debt that Bonneville will support. That debt will defer portions of existing debt service due from Bonneville. These debt issuances will substitute more economical nonfederal debt for federal debt.

The stable outlook reflects our stable outlook on the U.S. sovereign rating, the breadth of the Bonneville service

territory, the regional essentiality of the firm power Bonneville sells, and the benefits of long-term power sales contracts with customers.

Environmental, social, and governance (ESG) factors

Because Bonneville Tier 1 electric sales are almost exclusively from federal hydroelectric projects and the ENW's nuclear facility, the utility has a very low carbon footprint, limiting, but not eliminating environmental risks. Bonneville and its ratepayers face the costs of remediating fish and wildlife habitats, along with the costs of related litigation and regulatory proceedings pertaining to the hydroelectric facilities. Bonneville also faces the environmental risks inherent in ENW's spent nuclear fuel disposal. Although Tier 2 electric sales that exceed the generation capabilities of Bonneville's resources can include carbon-based, conventional generation, these sales represent a small portion of energy sales.

Protracted rate proceedings manifest customers resistance to rate increases. Tempering this exposure is our view that the utility's favorable wholesale rates limit affordability issues that could create social risks.

The specter of the legislatively imposed borrowing ceiling represents a significant governance exposure and compels management to explore alternative finance structures that address significant capital needs without exceeding the cap. We also view regional resistance to rate adjustments as presenting governance risks, which management's reliance on biennial rate adjustments and the high threshold for intra-period true-ups reflect.

Stable Outlook

Upside scenario

We do not expect to raise the ratings in the next two years, because of the utility's diminished rate competitiveness relative to other regional generation resources, the competitive pressures that low natural gas prices and renewable resources place on BPA's surplus sales activities, and the uncertain prospects for customer contract renewals the utility might face when customers' power supply contracts expire in 2028. Coupled with these exposures are the interplay among BPA's and ENW's sizable capital programs, and our view that nonfederal debt service coverage (DSC) ratios could weaken once BPA addresses the deferred ENW debt amortization.

Downside scenario

If, during our two-year outlook horizon, BPA does not make strides in addressing competitiveness issues or if DSC, liquidity, and federal borrowing capacity decline beyond targeted levels, we could lower the SACP. Also, if the utility adds significant nonfederal leverage obligations due to its statutory debt ceiling, there could be negative implications for the SACP and the 'AA-' rating.

Credit Opinion

The GRE rating reflects our view of:

- Bonneville's status as a federal agency;
- The ongoing financial support the federal government provides to the agency through long-term loans and credit

lines;

- Legislation that allows BPA to defer repayments of federal obligations if it is in financial distress, which we view as benefiting nonfederal lenders; and
- The utility's important contributions to the Pacific Northwest's economy, where it indirectly serves a population of about 14 million in eight states, provides power that is critical to the region's economic health, and operates key transmission resources.

Tempering these strengths is the passage of 12 years since Congress last adjusted BPA's \$7.7 billion of borrowing authority in 2009. Projections of \$4.8 billion of 2021-2025 capital spending compared with \$2.0 billion of remaining borrowing capacity underscore the challenges the cap imposes on the utility.

Our SACP reflects our assessment of Bonneville's:

- Exceptionally broad and diverse service territory that supports the revenue stream.
- Robust nonfederal accrual DSC of 3.0x in 2019 and 3.1x in 2020. These figures reflect the uplift that deferred ENW debt amortization and operating expenses provide. Accrual coverage of combined federal and nonfederal obligations was 0.9x in 2019 and 0.8x in 2020 due in part to the influence of accelerated payments of federal appropriations debt.
- \$847 million of unrestricted cash and investments on its balance sheet at Sept. 30, 2020, which was equivalent to almost five months' operating expenses. We consider maintaining a sound liquidity cushion to be an important hedge against variable hydrology conditions and the credit risks inherent in biennial rate cases, the high threshold for intra-period rate adjustments, and volatile surplus power sales revenues and volumes. The utility's 2018-2023 strategic plan projects unrestricted cash and investments will decline to levels equivalent to 60 days' operating expenses.
- 2018-2023 strategic plan, which assumes rate setting that will support a 97.5% probability of meeting all federal and nonfederal obligations.
- Strategic goals, which include paring its unused federal borrowing capacity to \$1.5 billion from \$2.2 billion.
- Highly politicized and protracted biennial rate proceedings that could delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility.
- Tiered rates underlying the customer contracts, which help shield the utility from market volatility by assigning to customers the costs of their energy needs that exceed their allotments of capacity from the federal hydroelectric projects and CGS.

Although we historically viewed BPA's rates as competitive and fostering strong demand for its generation, the utility reports that the effects of low natural gas prices, an abundance of output from regional wind resources, and flat energy demand are depressing power prices in competitive markets, which erodes the relative competitiveness of BPA resources. In addition, the costs of addressing aging infrastructure are eroding its generation's competitiveness. The supply certainty that Bonneville's around-the-clock resources provides to its customers mitigates some of the competitive disadvantages relative to the low prices of intermittent low-cost renewable resources.

Management reports it is focusing on enhancing competitiveness and demand for the utility's output to preserve its

customer base before its 2008-2028 preference customer contracts expire.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of May 4, 2021)		
Bonneville Pwr Admin columbia generating sta elec rev and rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin columbia generating sta elec rev and rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin proj 1 elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin proj 1 elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) columbia generating sta elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) electric rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2016-A due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev and rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2016-B due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2014-C due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2016-A due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds ser 2017-A dtd 05/03/2017 due 07/01/2026-2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2025		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B dtd 05/03/2017 due 07/01/2020 2025		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (taxable) (Bonneville Pwr Admin) ser 2018-D due		

Ratings Detail (As Of May 4, 2021) (cont.)

07/01/2023		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2026		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2017-A dtd 05/03/2017 due 07/01/2018 2025 2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2018-C due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B dtd 05/03/2017 due 07/01/2020 2025		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj #1)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist, Oregon		
Bonneville Pwr Admin, Oregon		
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) rev rfdg bnds (McNary Dam Fishway Hydroelec Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRAns		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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