FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Energy Northwest, WA Elec Rev Ref Bonds 'AA'; Affirms Bonneville IDR at 'AA-'

Thu 20 Apr, 2023 - 5:55 PM ET

Fitch Ratings - Austin - 20 Apr 2023: Fitch Ratings has assigned a 'AA' rating to the following electric revenue refunding bonds (amounts approximate) issued by Energy Northwest, WA, and secured by payments from the Bonneville Power Administration (Bonneville):

--$428.75 million Columbia Generating Station electric revenue refunding bonds, series 2023-A;

--$16.26 million Project 1 electric revenue refunding bonds, series 2023-A;

--$73.12 million Project 3 electric revenue refunding bonds, series 2023-A.

The bonds are scheduled to price on May 2, 2023, via negotiation. Bond proceeds will fund new money capex at the Columbia Generating Station, refinance existing bonds as part of Bonneville's and Energy North West's (ENW) regional cooperation debt program, and pay costs of issuance.

Fitch has also affirmed the Bonneville Power Administration's Issuer Default Rating (IDR) at 'AA-'. The IDR reflects the credit quality of Bonneville's repayment of all its fixed obligations, including federal and non-federal debt and lease obligations.

Fitch has also affirmed the 'AA' debt ratings on the following non-federal debt and secured on parity through payments from Bonneville:

--$792.7 million ENW Project 1 revenue bonds;

--$3.1 billion ENW Columbia Generating Station revenue bonds;

--$944.8 million ENW Project 3 revenue bonds;

--$510.0 million Idaho Energy Resources Authority (IERA) transmission facilities revenue bonds, series 2017 and 2021;

--$81 million IERA Note Purchase Agreement;

--$1.3 billion Port of Morrow transmission facilities revenue bonds, series 2012, 2014, 2015, 2016-1, 2019, 2020-1 and 2020-2;

--$56.4 million Lewis County Public Utility District No. 1 Cowlitz Falls hydroelectric project revenue refunding bonds, series 2013.The Rating Outlook on all ratings is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Bonneville Power Administration (OR)	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Bonneville Power Administration (OR) /Issuer Default Rating/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Bonneville Power Administration (OR) /Transmission Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

Energy Northwest (WA) /Electric System Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

SECURITY

Bonneville's payments to ENW for debt service on the bonds are unconditional and are made as an operating expense from the Bonneville Fund. All of Bonneville's revenues are required to be deposited in the Bonneville Fund, which is a separate fund within the U.S. Treasury. Expenditures from the Bonneville Fund do not require further federal appropriation.

Non-federal debt obligations, such as those of ENW, are consolidated as obligations on Bonneville's financial statements and are paid prior to Bonneville's payments on its borrowings from the U.S. Treasury and federal appropriations debt

KEY RATING DRIVERS

Bonneville's 'AA-' IDR reflects very strong revenue defensibility and very low operating costs, which support the utility's financial profile assessment of 'aa'. Bonneville's leverage, measured as net adjusted debt to funds available for debt service, exhibits variability due to Bonneville's reliance on wholesale sales (i.e. net secondary revenues), but is expected to range between 9.0x and 10.0x, supporting the rating. Wholesale sales and overall performance remain highly dependent on hydrological conditions and market energy prices.

The 'AA' ratings on the non-federal debt obligations, including the ENW bonds, is distinct from Bonneville's 'AA-' IDR, and reflects Bonneville's unconditional obligation to make non-federal debt payments ahead of its federal debt. Bonneville's federal obligations include the structural ability to defer debt repayments and interest due in the event Bonneville's revenues are insufficient following the payment of Bonneville's other obligations, including the non-federal debt.

Revenue Defensibility: 'aa'; Geographic and Revenue Diversity: Bonneville's revenue defensibility is very strong. Long-term power sales contracts with over 125 customers and Bonneville's dominant role as the regional transmission provider result in long-term revenue security, despite some degree of renewal risk related to the power supply contracts, which is considered an asymmetric rating consideration.

Bonneville establishes its own rates. Although the use of formal two-year rate cases represent a lengthy and rigid process, the rate structure does have automatic adjustment features to increases rates if reserves fall to critical levels and to return reserves to customers if they exceed 120 days cash on hand (DCOH).

The purchaser credit quality of Bonneville's wholesale power and transmission customers is borderline very strong/strong. The largest customers exhibit favorable service area characteristics and very strong financial profiles.

Operating Risk: 'aa'; Very Low-Cost Hydroelectric Power Supply: Bonneville's operating cost burden is low, averaging 3.9 cents per kilowatt hour (kwh) over the last three years, largely due to a very low-cost, predominantly hydroelectric generation fleet. Operating cost flexibility is considered weaker given the dominance of one fuel type in the fleet, although hydroelectric generation is poised to enjoy some protection in the short-term against the inflationary natural gas prices impacting other generation sources in the market.

Capital needs are considered moderate, but projected capex spending totals $4.97 billion over the next five years and $1.6 billion at CGS through 2033. This level of projected capex is an increase from historical levels, and relates primarily to transmission investments planned across the six-state region.

Financial Profile: 'aa'; Highly Leveraged; Strong Sales Improved Liquidity in Recent Years: Financial performance was very strong in fiscal 2022 with an above average water year and very strong market prices for net secondary sales. Bonneville's entrance into the Western Energy Imbalance Market (EIM) in May 2022 increased opportunities for net secondary sales.

Fitch's liquidity calculation at the end of fiscal 2022 was $1.84 billion, or 263 DCOH. This amount is expected to decline in fiscal 2023 as excess reserves are distributed back to customers and used to repay debt. The adoption of the Bonneville's first Financial Reserves Policy in 2018 and refresh of the plan in 2022 provides improved certainty that reserve levels will be maintained over time, targeting the preservation of between 60 and 120 DCOH.

Leverage shows a relatively high degree of variability, declining to 6.1x in fiscal 2022, but ranging as high as 11.4x in fiscal 2019. Total outstanding debt has declined incrementally over that period but changes to annual cash flow and reserves impact the leverage ratio. Given planned capex and debt issuance, Fitch expects Bonneville's leverage to range between 9.0x-10.0x range over the next five years, although leverage could periodically increase to 11.0x under adverse water conditions, as occurred in fiscal 2019. Transmission business lines are able to support slightly higher leverage than the power business line, resulting in Fitch's rating tolerance for leverage periodically trending slightly higher than the 10.0x 'aa' threshold.

Asymmetric Additional Risk Consideration: No overall asymmetric risk considerations impact the final rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Material and consistent declines in leverage below 8x in Fitch's base and stress cases.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Leverage trending consistently above 11.0x in Fitch's base and stress cases with limited expectation of reduction, which could occur if debt reduction targets are weakened or abandoned;

--An erosion of revenue defensibility over the medium term that reduces Bonneville's ability to support existing leverage at the current rating. The erosion could occur from reductions in contracted load or more permissive contract terms, should they emerge during the contract-renewal process.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT PROFILE

Bonneville provides wholesale power to a population of more than 15 million in the Pacific Northwest through a resource portfolio consisting of low-cost hydropower and nuclear generation. Transmission services are provided to a similar six-state region, but to a broader number of utilities. Bonneville is the largest of four federal power-marketing agencies within the U.S. Department of Energy. Bonneville's predominantly hydroelectric generation portfolio (89% of energy production based on average water) results in hydrology risk and a variable energy supply.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The ESG Relevance Score of '2' for GHG Emissions & Air Quality for Bonneville Power Administration varies from the public power sector guidance score of '3' since carbon-free systems (hydro, wind, nuclear, biomass and biowaste, geothermal) are not significantly exposed to the generation of GHG emissions from operations.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FITCH RATINGS ANALYSTS

Kathy Masterson
Senior Director
Primary Rating Analyst
+1 512 215 3730
kathryn.masterson@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

Jeb Spengler
Director
Secondary Rating Analyst
415-732-5615

jeb.spengler@fitchratings.com

Dennis Pidherny
Managing Director
Committee Chairperson
+1 212 908 0738
dennis.pidherny@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

U.S. Public Power Rating Criteria (pub. 03 Mar 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bonneville Power Administration (OR)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.