



RATING ACTION COMMENTARY

Fitch Upgrades Rating on Energy Northwest Wind Project Revs to 'A+' from 'A'; Outlook Stable

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Fitch Ratings - Austin - 30 Oct 2023: Fitch Ratings has upgraded the rating to 'A+' from 'A' on the following bonds issued by Energy Northwest, WA (ENW):

--Approximately \$32.0 million nine canyon wind project revenue and refunding bonds series 2015.

The Rating Outlook is Stable.

Fitch has assessed the project's standalone credit profile (SCP) at 'a+'.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
Energy Northwest (WA) [Wind Project]		

Energy Northwest (WA) /Wind
Project Revenues/1 LT

LT A+ Rating Outlook Stable Upgrade

A Rating Outlook
Positive

[VIEW ADDITIONAL RATING DETAILS](#)

The upgrade reflects the rating movement on Fitch's Issuer Default Rating for Grays Harbor County PUD, which was upgraded to 'A+' on Oct. 30, 2023.

Energy Northwest's (ENW) Nine Canyon Wind Project rating is based primarily on the credit quality of the project participants, whose payments are ultimately used to pay operating expenses and debt service on the bonds used to finance Phase III of the project. Payments from five project participants are made pursuant to identical take-or-pay power purchase agreements (PPAs) with ENW that extend to 2030, the final bond maturity date for remaining project-related debt. The obligations of the Phase III project participants are absolute and unconditional, and are not dependent on wind project operations.

The strong credit quality of the largest project participants is supported by their monopolistic utility operations, autonomous rate-setting authority, very high rate affordability and very low operating costs. These credit characteristics of the largest project participants are reflected in Fitch Ratings' purchaser credit quality (PCQ) assessment of 'a'. Given the limited 25% permitted step-up reallocation of costs among the project participants in the PPAs, the bond rating is capped and constrained by the credit quality of the largest Phase III participant, Grays Harbor County Public Utility District (PUD) No. 1 (A+/Stable; 37.52% of Phase III). Other Phase III participants include Franklin County PUD (25.00%), Benton County PUD (AA-/Stable; 18.63%), Lewis County PUD (15.71%) and Mason County PUD (3.14%).

Debt related to Phase I and Phase II of the Nine Canyon Wind Project was repaid at the final maturity date of July 1, 2023. The five project participants involved in Phase I and Phase II – but not Phase III – still make payments to ENW to pay the operating costs of those earlier two phases, but have no responsibility to make debt payments related to the outstanding series 2015 bonds used to finance Phase III of the project.

SECURITY

The bonds are secured by a net revenue pledge of the entire Nine Canyon Wind Project, which consists of three phases. However, each phase (and bond series) is separately secured by a unique group of PUD power purchasers. Certain purchasers are involved in multiple phases.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

Strong Contractual Framework; Strong Purchaser Credit Quality

Strong revenue defensibility reflects the contractual obligations underpinning the project, which are absolute and unconditional, but only provide for a limited reallocation of costs through the 25% step-up provision in the PPAs. The 'a' revenue defensibility assessment also reflects ENW's independent rate-setting ability and Fitch's PCQ assessment of 'a', which is based on the credit quality of the largest participants. Fitch considers the rating capped based on the credit quality of the two largest of the five project participants in Phase III, given the direct bondholder exposure to those two participants for repayment of the debt.

Operating Risk - 'a'

Low-Cost Wind Power

The operating risk assessment is driven by the low operating cost of the wind project and the relatively small magnitude of the project costs as a percentage of each project participant's total costs. The take-or-pay structure of the contract requires payment by the participants regardless of whether the project is operating or operable. The operating cost flexibility is assessed as weaker given the single-asset nature of the project, but does not constrain the operating risk assessment or the rating.

Financial Profile - 'aa'

Financial Profile Less of a Rating Factor

Financial operations are balanced and sufficient revenue is collected from the project participants to pay operating costs, capex and debt service on the bonds. The project's leverage and financial profile are less of a consideration in Fitch's determination of the overall rating, given the pass-through nature of the project and the contractual obligation of the project participants.

Asymmetric Additional Risk Considerations

There are no asymmetric risk considerations that affect the overall rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A decline in the overall credit quality of the largest Phase III project participants, specifically Grays Harbor County PUD and Franklin County PUD.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Improvement in the credit quality of the largest Phase III project participants, specifically Grays Harbor County PUD.

PROFILE

ENW has 28 members, consisting of 23 PUDs and the cities of Richland, Seattle, Tacoma, Centralia and Port Angeles, WA. ENW owns and operates a nuclear generating station, Columbia Generating Station, the Packwood Lake Hydroelectric Project, the Nine Canyon Wind Project and the White Bluffs Solar Station. Each project is separately financed. ENW members participate in various projects for specific percentages of the capacity and energy, resulting in differing credit quality for each of the projects, depending on the underlying members, power sales contract terms and project economics.

ENW developed the Nine Canyon Wind Project to provide renewable energy to 10 PUDs in Washington. The project consists of 63 wind turbines totaling 95.9MW of capacity completed in three phases between 2002 and 2008. The turbines are in Benton County, WA, on land leased beyond the final repayment of the bonds. Production has been healthy, with an average capacity factor over 29% during four of the last five fiscal years.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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 the ENW Nine Canyon Wind Project varies from the public power sector guidance score of '3' because the largest purchasers have carbon-free power supplies. Carbon-free systems (hydro, wind, nuclear, biomass and biowaste, geothermal) are not significantly exposed to the generation of greenhouse gas emissions from operations.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

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

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Apr 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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Energy Northwest (WA)

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