CREDIT OPINION
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Energy NW - Nine Canyon Wind Project

Update to credit factors following upgrade

Summary

Energy NW - Nine Canyon Wind Project's (Nine Canyon: Aa3 stable) credit profile reflects its power purchase contracts (PPAs) with five participants with a weighted average credit quality of Aa3 and PPA terms that incorporate many features of traditional 'take or pay' PPAs. While the operations and maintenance (O&M) cost cap and vague termination language are atypical and represent weakness in the contractual structure of the project, Nine Canyon's strong liquidity and ability to manage its O&M costs sufficiently and the relative importance of the resources from a regional carbon transition perspective mitigates these weaknesses.

At the end of FY2024 (June 30), Nine Canyon had 706 days cash on hand in addition to a 12 month debt service reserve. Additionally, Washington State's stringent decarbonization requirements for electric utilities to decarbonize its power supply by 2045 provide an additional regulatory incentive for the off-takers to secure power from Nine Canyon while the ramp down in debt service by more than 50% that started in FY2024 increases the project's financial flexibility. Also, Nine Canyon's crerdit profile recognizes the older age of the assets with a weighted average age of about 20 years.

Credit strengths

» Take-or-pay contracts with participants of Aa3 weighted average credit quality

» Historical operating costs well below O&M cap

» Robust liquidity

» State mandate for electric utilities to decarbonize its power supply by 2045

Credit challenges

» Atypical contract features for take-or-pay contracts include an O&M cap and vague termination language

» Older assets with a weighted average age of around 20 years

Rating outlook

The stable outlook considers the project's strong participant credit quality, demonstrated ability to keep costs within its O&M cap under its PPA, robust internal liquidity, and stringent decarbonization mandate for Washington state electric utilities.

Factors that could lead to an upgrade

» The project's rating could improve if the weighted average credit quality of the participants improves to Aa2 while the project maintains robust liquidity and manages its costs well below the O&M cap.

Factors that could lead to a downgrade

» The project incurs major and sustained operational problems

» Internal liquidity declines materially

» Weighted average participant credit quality drops below Aa3

» Inability to recover costs under take-or-pay contracts or contracts are challenged

Key indicators

Exhibit 1

	2020	2021	2022	2023	2024
Total Sales (mWh)	244,710	236,320	238,620	199,750	196,320
Debt Outstanding ($'000)	70,105	61,270	51,975	42,220	31,965
Debt Ratio (%)	101.3	79.8	89.7	118.1	114.8
Adjusted Debt Ratio (%)	110.1	89.4	102.6	128.4	123.1
Cash to Debt (%)	21.1	24.6	27.6	32.6	44.0
Total Days Cash on Hand (days)	776	821	753	735	706
Fixed Obligation Charge Coverage (if applicable)(x)	1.00	1.02	0.94	0.72	0.67

Note: The below 1.0x DSCR for FY2022 to FY2024 reflect Nine Canyon usage of excess unrestricted funds in FY2022 and excess debt service reserve funds in FY2023 and FY2024, respectively.
Source: Moody's Ratings, Issuer

Profile

The Nine Canyon project is a 95.9 MW (63 wind turbines) wind power project located in Washington state and it sells power under take-or-pay contracts to creditworthy public power entities. The project was built in three phases (each a Phase) comprising of the 48.1 MW Phase 1, 15.6 MW Phase 2 and 32.2 MW Phase 3 with commercial operations occurring in 2002, 2003, and 2008, respectively. Phase 1 and 2 use Siemens 1.3 MW wind turbines while Phase 3 uses Siemens 2.3 MW turbines. Debt associated with Phase 1 and 2 have been fully repaid and only debt used to fund Phase 3 construction is remaining with a final maturity on July 1, 2030.

Detailed credit considerations

Revenue Generating Base

Strong participants but PPA contains weak or unclear provisions compared to a typical JAA's take-or-pay arrangement

The project benefits from take-or-pay PPAs with highly rated public power participants. Five of these participants with a weighted average credit quality of Aa3 are responsible for debt service since only the Phase 3 related bonds are outstanding (see Exhibit 2). Since Nine Canyon's Phase 1 and 2 related bonds have been fully repaid, the other five participants who participated only in Phase 1 or Phase 2 are no longer responsible for any debt service costs.

Exhibit 2
NIne Canyon Wind's Bond Participants

Purchaser	Rating	Debt Service, %
Grays Harbor County P.U.D. 1, WA	Aa3	37.5
Franklin County Public Uitlity Dist 1, WA	Aa3	25.0
Benton County Public Utility District 1, WA	Aa3	18.6
Lewis County Public Utility District 1, WA	Aa3	15.7
Mason County Public Util Dist 3, WA	Aa3	3.1

Source: Issuer, Moody's Ratings

For O&M expenses across the entire project, all of the project's original ten participants are obligated to pay their share of operating costs and the weighted average credit quality of participants obligated for O&M expenses is also Aa3 (see Exhibit 3). The power output for all of Nine Canyon is attributed to the participants based on their O&M shares.

Exhibit 3
NIne Canyon Wind's participants share of O&M and power output

Purchaser	Rating	Annual O&M Budget and Project Output, %
Grays Harbor County P.U.D. 1, WA	Aa3	20.9
Okanogan County Public Utility District 1, WA	A1	16.6
Grant County Public Utility District 2, WA	Aa3	12.5
Franklin County Public Uitlity Dist 1, WA	Aa3	10.5
Douglas County Public Utility District 1, WA	Aa2	10.2
Benton County Public Utility District 1, WA	Aa3	9.4
Chelan County Public Util. Dist 1, WA	Aa2	8.3
Lewis County Public Utility District 1, WA	Aa3	6.3
Mason County Public Util Dist 3, WA	Aa3	3.1
Cowlitz County Public Utility District 1, WA	A1	2.1

Source: Issuer, Moody's Rating

Nine Canyon's PPAs contains many features found in a traditional take-or-pay arrangement whereby the participants have to pay for their respective share of debt service and operating costs, with a 25% step up feature for each phase in case of a participant default and generally does not contain specific project performance requirements.

The PPA also contains terms atypical in a JAA 'take or pay' arrangement, such as an annual payment limit and unclear termination provisions. The payment cap consists of the project's scheduled debt service, annual O&M cap of $7 million (2006) adjusted by an inflation index, and any credits or debits of any Renewable Energy Production Incentive (REPI) credits. We understand that the annual payment limit caps a participant's payment requirements for any given fiscal year, which could delay the step up requirement under the PPA until the next fiscal year. While the cost cap is a weakness relative to other take or pay projects, Moody's also recognizes that Nine Canyon's historical O&M costs have been below the inflation adjusted cap which has risen over time per the terms of the PPA.

The project's actual O&M expenses totaled $7.5 million in FY2024 and averaged around $7.2 million per year over the last three years, which we estimate is well below the inflation adjusted cap.

Furthermore, Moody's understands that if the project has not been in operations for 12 consecutive months and is not capable of returning to operations without capital improvements that make it uneconomic, the off-takers (with 60% approval) could ultimately seek to terminate the nonperforming phase. In such a scenario, Energy Northwest would have to sell all of the applicable assets and use the proceeds to pay down debt and expenses for that specific phase with any remainder given to the applicable participants. In Moody's view, the off-take contractual terms are ambiguous as to whether the participants would be required to pay for any debt that remains outstanding for the applicable phase assuming the PPA is terminated. We understand that Energy Northwest and their legal counsel believe the participants will continue to be responsible for their respective share of any outstanding debt in the scenario described above. In Moody's view, the Project's strong liquidity, demonstrated operating performance, and stringent mandate by Washington state regarding power supply decarbonization serve as important mitigants that help address this contract uncertainty as well as the O&M cost cap issue.

Since all three phases are in commercial operation, the only other possible termination events are at stated maturity or for a participant default. Under a participant default, the PPA explicitly states that the defaulting participant remains obligated to pay for its share of the debt service even after PPA termination.

Strong state mandate for renewable energy

Nine Canyon benefits from Washington State's clean energy mandate for electric utilities passed in May 2019 that requires all utilities provide its customers with 80% non-greenhouse gas emitting power by January 2030 and 100% by January 2045. This requirement is in addition to the renewable portfolio standard requirement that utilities source 15% of its power from renewable power. Moody's views Washington State's renewable portfolio requirement and non-GHG power supply requirements as important regulatory incentives for the participants to purchase Nine Canyon's power.

Financial Operations and Position

Older assets with long operating history

The project's assets are older with an average life of around 20 years old with the earliest phase reaching commercial operations in 2002 and the last phase having reached commercial operations in 2008. Given the age of the assets, they could experience greater maintenance cost or equipment failures. In the past, Nine Canyon's Phase 1 and 2 experienced numerous gearbox and main bearing failures that Siemens addressed under warranty that expired in August 2012. A separate settlement was reached regarding the main bearings in 2010. For Phase 3, Nine Canyon has an extended warranty that expires in August 2028 and covers major components although it excludes the cost of crane support. While the project's O&M activities have been supportive of high availability averaging around 98% after excluding scheduled outages and downtime, the project's energy production is still subject to the variability of the wind resource. For FY2024, low wind speeds led the project to generate about 196 GWh of power, which was similar to FY2023's 200 GWh but well below the annual average generation of 230 GWh from FY2009 through FY2023.

Ultimately, the project's operating performance remains a key credit consideration particularly with the less clear termination provision and the O&M cost cap issues described above. An inability to maintain a sound operational performance leading to costs that are high relative to the O&M cost cap would be credit negative. As mentioned, for FY2024, the project's O&M expenses totaled $7.5 million which we estimate is well below the $7 million (2006) cap when adjusted for inflation.

Low debt service coverage

Nine Canyon's debt service coverage ratios (DSCRs) have averaged around 0.77x over the past three years and they recognize Nine Canyon's use of unrestricted cash flow reserves in FY2022 and its use of excess cash reserves from the debt service reserve accounts for each of FY2023 and FY2024. On the latter, the excess debt service reserves was due the final payoff of Phase 1 and 2 bonds. We expect Nine Canyon to utilize more of its unrestricted cash reserves over time when needed as it nears final bond maturity in 2030. That said, the participants remain fully obligated to pay their pro-rata share of annual debt service.

Liquidity

The project's minimum liquidity consists of a cash funded debt service reserve sized according to the traditional three prong test, a minimum $750K operating reserve, and a reserve and contingency account. Nine Canyon also has a decommissioning trust that had $6.6 million at the end of FY2024. Including the operating and contingency reserves, the project's unrestricted liquidity totaled a robust 706 days cash on hand at FY2024. Nine Canyon's overall strong liquidity position materially reduces concerns regarding the PPA's contractual weaknesses including the O&M cost cap.

Debt and Other Liabilities

Legal security

Nine Canyon's bonds are secured by a pledge of the net revenues of the project's three Phases, whose revenue are derived from take-or-pay contracts. Nine Canyon can issue additional debt with 100% participant approval for each project phase and the inclusion of the new debt under the respective PPAs.

Debt structure

The project's debt consists of traditional fixed rate, amortizing debt with a final maturity of July 1, 2030. Debt totaled around $32 million at fiscal year end 2024 (June 30th).

Debt-related derivatives

None.

Pensions and OPEB

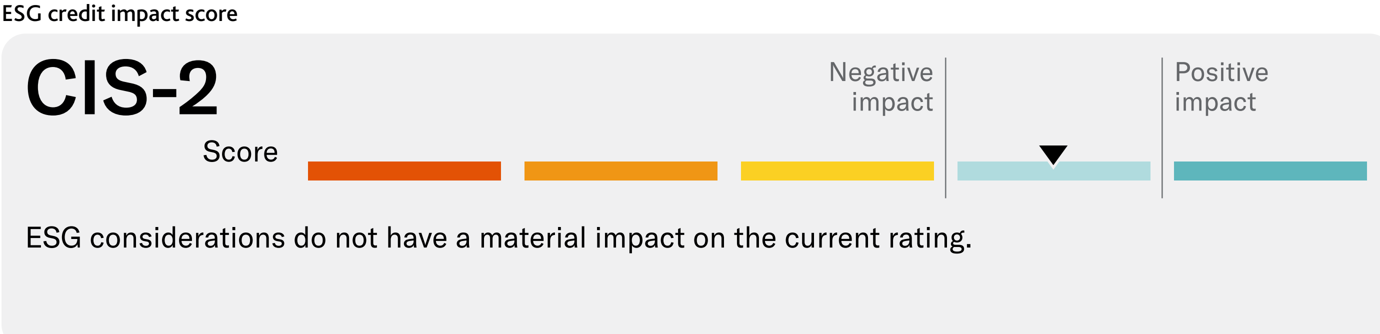
The project participates in Washington State's statewide, multiple employer Public Employees Retirement System (PERS) pension plan. Moody's calculates the Nine Canyon's adjusted net pension liability (ANPL) for FY2024 relating to its proportionate share of PERS to be around $2.8 million, compared to the issuer's reported proportionate share of the net pension liability of around $172K. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits. Separately, Nine Canyon has a reported OPEB liability of $208K.

ESG considerations

Energy NW - Nine Canyon Wind Project's ESG credit impact score is CIS-2

Exhibit 4

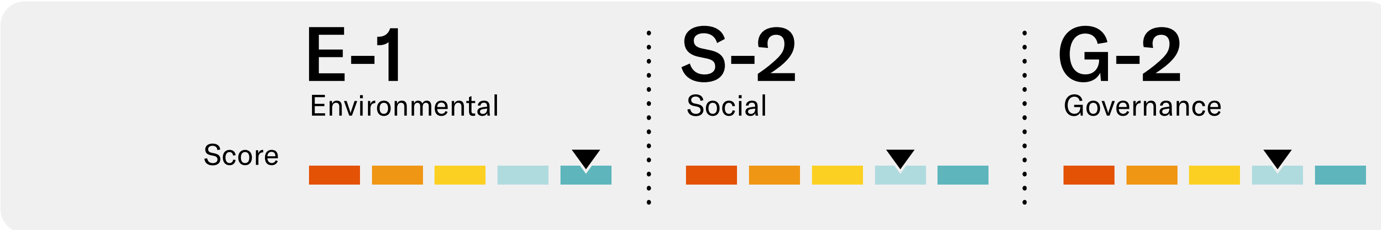
ESG credit impact score



Source: Moody's Ratings

Energy Northwest-Nine Canyon Wind Project (ENW Nine Canyon) **CIS-2** credit impact score reflects positive carbon transition exposure since the company's generation assets consist solely of carbon emissions free, wind power plants and Washington state has stringent decarbonization mandates for in-state electric utilities but also social and governance risks broadly in line with peers.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

ENW Nine Canyon's **E-1** issuer profile score (IPS) largely reflects positive carbon transition exposure since the company's generation assets consist solely of carbon emissions free, wind power plants and Washington state has stringent decarbonization mandates for in state electric utilities.

Social

ENW Nine Canyon's **S-2** issuer profile score (IPS) considers social risks that is broadly in line with peers and does not pose a particular risk.

Governance

ENW-Nine Canyon's (**G-2**) issuer profile score (IPS) considers governance risks that is broadly in line with other JAA projects with take or pay projects and conservative financial policy that has led to robust internal liquidity.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Moody's evaluates Nine Canyon under the US Municipal Joint Action Agencies methodology, and, as depicted below, the scorecard indicated outcome is Aa3, which matches the Aa3 assigned rating.

The negative ½ notch for Contractual Structure and Legal Environment reflects Nine Canyon's continuing exposure to the termination provisions and O&M cap exposure which are present in the transaction, but are mitigated by Nine Canton strong liquidity and cost management profile, along with the importance of the resources from a regional carbon transition perspective.

Exhibit 6

ENW Nine Canyon's Scorecard

Factor	Subfactor/Description	Score	Metric
1. Participant Credit Quality and Cost Recovery Framework	Participant credit quality. Cost recovery structure and governance	Aa3	
2. Asset Quality & Exposure to Environmental Regulation	Asset diversity, complexity, history, and exposure to environmental regulation	Baa	
3. Liquidity	Adjusted days liquidity on hand (3-year avg) (days)	Aaa	731
4. Leverage and Coverage	a) Adjusted debt ratio (3-year avg) (%)	Baa	118%
	b) Fixed obligation charge coverage ratio (3-year avg) (x)	Baa	1.0
Notching Factors		**Notch**	
	1. Competitiveness	0	
	2 - Contractual Structure and Legal Environment	-0.5	
	3- Participant Diversity and Concentration	0	
	4 - Construction Risk	0	
	5 - Financing Structure	0	
	6 - Unmitigated Exposure to Wholesale Power Markets	0	
Scorecard Indicated Outcome:		**Aa3**	

Note: DSCR of 1.0x was assumed given the participant's ultimate obligation to pay debt service.
Source: Moody's Ratings

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