

**Summary:**

**Energy Northwest, Washington  
Bonneville Power Administration,  
Oregon; Wholesale Electric**

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## Summary:

# Energy Northwest, Washington Bonneville Power Administration, Oregon; Wholesale Electric

### Credit Profile

US\$261.71 mil elec rev rfdg bnds (Bonneville Pwr Admin) ser 2019A due 07/01/2038

*Long Term Rating* AA-/Stable New

US\$17.21 mil columbia generating sta elec rev rfdg bnds (Bonneville Pwr Admin) ser 2019B due 07/01/2035

*Long Term Rating* AA-/Stable New

### Energy Northwest, Washington

Bonneville Pwr Admin, Oregon

Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)

*Long Term Rating* AA-/Stable Affirmed

## Rationale

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

- \$261.7 million Columbia Generating Station (CGS) electric revenue refunding bonds, series 2019-A; and
- \$17.2 million Columbia Generating Station electric revenue refunding bonds, series 2019-B (taxable).

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 with stable outlooks 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. S&P Global Ratings' 'aa-' stand-alone credit profile on BPA is unchanged.

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

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 have \$1.7 billion of debt, and the operating CGS nuclear unit has \$3.5 billion.

Bonneville has been using ENW refunding transactions to capture debt service savings by deferring portions of its ENW debt, freeing funds to retire portions of higher-interest federal appropriation debt more quickly. The electric system does this to preserve Treasury borrowing capacity, which is subject to a cap. Bonneville labels its use of ENW debt extensions to reduce appropriations and Treasury debt, "Regional Cooperation Debt Refinancings." BPA has

reamortized \$1.9 billion of ENW debt through 2014-2018 refunding transactions.

As it retires federal debt, BPA applies the funds that it would have used to pay the retired debt's principal and interest to accelerate additional portions of its U.S. Treasury debt. This strategy is critical to funding Bonneville's capital program because the utility operates under a congressionally imposed \$7.7 billion ceiling on its Treasury borrowings. As of fiscal year-end 2018, \$5.5 billion of Treasury bonds were outstanding, and the utility reports \$4.1 billion of 2019-2023 capital spending needs, which underscores the debt management program's essentiality.

At fiscal year-end 2018 (Sept. 30), Bonneville had \$15.0 billion of debt obligations, consisting of \$1.8 billion of federal appropriations, \$5.5 billion of bonds issued to the Treasury, and \$7.7 billion of nonfederal debt that the utility supports. BPA's nonfederal debt includes \$2.1 billion of lease obligations, and \$248 million of customer power prepayments. It pays nonfederal debt from net revenues before it services federal Treasury debt and appropriations.

S&P Global Ratings believes that the Regional Cooperation refinancings will strengthen nonfederal debt service coverage (DSC) in the near term, but will likely erode DSC in later years because BPA and ENW are deferring nonfederal debt service.

Furthermore, in 2016, 2017, and 2019, Energy Northwest entered into bank loans to fund portions of its CGS operating and maintenance expenses and part of its debt's interest expenses. These loans deferred and are deferring ENW costs that BPA bears to facilitate its Treasury debt reduction. BPA paid \$259 million to retire the first of these loans in 2017, and a \$458 million loan in 2018. A \$141 million loan matures in June 2019 and a \$227 million loan matures in June 2020.

The 'AA-' ratings on the nonfederal debt that BPA supports, including the ENW debt, reflect Bonneville's contractual obligations to support the debt, and the application of our government-related entities (GRE) criteria. We assess BPA's stand-alone credit profile to be 'aa-' 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. However, after downgrading the U.S. to 'AA+' from 'AAA' in August 2011, we no longer view the U.S. government's sovereign credit profile as lifting the ratings on the nonfederal obligations that BPA supports above the utility's stand-alone credit profile.

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 benefitting 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 fact that Congress has not adjusted BPA's borrowing authority since 2009, when it increased 73% to \$7.70 billion. The utility's \$4.1 billion of 2019-2023 capital spending compared with \$2.2 billion of remaining borrowing capacity underscores the significance of the borrowing cap.

Our stand-alone credit profile reflects our assessment of Bonneville's:

- Exceptionally broad and diverse service territory that supports the revenue stream.
- Nonfederal accrual DSC, which declined in each of the three most recent fiscal years, but remained robust. The nonfederal debt's DSC was 2.5x in 2018, down from 4.8x in 2015. These trends represent the uplift that deferred ENW debt amortization provides, the repayment of credit lines that funded portions of BPA's obligations for portions of CGS operating and maintenance and debt-interest expenses, and the effects of weak market energy prices on sales of surplus power. Accrual coverage of combined federal and nonfederal obligations was 1.3x in 2018, up from 1.0x in 2017, and 0.7x in 2016. The combined coverage levels reflected the influence of significant accelerated payments of federal appropriations debt.
- \$840 million of unrestricted cash and investments on its balance sheet at Sep. 30, 2018, which was equivalent to four 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. Nevertheless, Bonneville established electric rates for municipal and electric cooperative customers for fiscal years 2018-2019 at \$35.57 per megawatt-hour (MWh), representing a 5.4% increase. BPA also lowered transmission rates by 0.7% to \$41.41 per MWh. The utility is evaluating power and transmission rate adjustments for the 2020 and 2021 fiscal years.
- 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 also reports that it needs to enhance competitiveness and demand for the utility's output to preserve its customer base before its 2008-2028 preference customer contracts expire.

In our view, BPA's capital spending program is important to maintaining the integrity of its generation fleet and managing forced-outage incidents. Bonneville and ENW project substantial capital needs that could add to both organizations' debt and consume BPA's Treasury borrowing authority. The utility uses nonfederal financing arrangements, including leases and energy prepayments by its customers, to help preserve federal borrowing capacity.

## Outlook

The stable outlook reflects our view that the stand-alone credit profile can withstand a further downgrade to the U.S., Bonneville's pursuit of rate increases for the 2020-2021 period, and the benefits of long-term power sales contracts with customers.

### Upside scenario

We do not expect to raise the ratings in the next two years, because of the utility's diminished rate competitiveness, the negative effects that low natural gas prices and renewable resources are having on BPA's surplus sales revenues, and the specter of difficulties 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 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 stand-alone credit profile. Also, if the utility adds significant nonfederal leverage obligations due to its statutory debt ceiling, there could be negative implications for the stand-alone credit profile and the 'AA-' rating.

### Ratings Detail (As Of April 25, 2019)

#### 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
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Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) WHLELC

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) WHLELC

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) WHLELC

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) WHLELC

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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**Ratings Detail (As Of April 25, 2019) (cont.)**

**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
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Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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**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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