MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 rating to Energy Northwest's (WA) CGS and Project 1 Revenue Bonds; outlook is stable

11 May 2020

Approximately $291 million of debt affected

New York, May 11, 2020 -- Moody's Investors Service ("Moody's") assigned a Aa2 rating to $54.1 million of Energy Northwest's (ENW) Project 1 Electric Revenue Refunding Bonds, Series 2020-A, $0.63 million of Project 1 Electric Revenue Refunding Bonds, Series 2020-B (Taxable), $226.2 million of Columbia Generating Station (CGS) Electric Revenue and Refunding Bonds, Series 2020-A, and $9.6 million of Columbia Generating Station Electric Revenue Refunding Bonds, Series 2020-B (Taxable). CGS could increase the offering depending on market conditions and the additional proceeds would be used to fund capital spending at its nuclear plant. The rating outlooks for Energy Northwest - Project 1, Energy Northwest - Project 2 (Columbia Generation Station) and Bonneville Power Administration are stable.

RATINGS RATIONALE

The Aa2 rating assignment on ENW's Project 1 and CGS's revenue bonds reflects considers Bonneville Power Administration's (BPA) contractual obligation to pay including debt service under each project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa2 issuer rating.

BPA's Aa2 rating considers its strongly positioned and expansive network of hydro and transmission assets, access to competitive power, long-term power supply contracts with customers through 2028 and credit supportive attributes as a line agency of the Government of the United States of America (Aaa stable). Borrowing ability under the US Treasury line and the ability to defer debt service payments to the US Treasury are two of the most critical support features from the US government. The rating also acknowledges continuing credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and low consolidated financial metrics. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

Recently, social distancing measures to confront the coronavirus have resulted in a manageable impact on ENW and BPA. ENW reports that its generating facilities including CGS continue to operate albeit plant staff are limited to essential workers and activities are limited to essential activities to ensure the safe and reliable operations. For BPA, they continue to transmit and sell power to its customers although we expect lower electricity demand in the region for at least 2020. While lower electricity demand will reduce BPA's power and transmission revenues, BPA's also expects operating and capital spending reductions and deferrals. The latest estimate from BPA indicates the overall impact would be moderate with its reserves for risk dropping to $455 million from $484 million at the end of FY2019 under a scenario where electricity demand is lower.

RATING OUTLOOK

BPA's stable outlook considers the agency's FY2020-2021 final rates, expectations of US Treasury line net availability remaining between $1.3 to $1.5 billion on an adjusted basis through at least FY2021, and reserves for risk declining closer to 60 days cash on hand over time. The stable outlook on ENW's CGS and Project 1 revenue bonds reflect the stable outlook on BPA and BPA's long history of honoring its contractual obligations.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- The rating on CGS and Project 1 revenue bonds could be upgraded if BPA is upgraded.

- BPA's rating could improve if BPA is able to maintain reserves for risk at above 90 days cash on hand and materially above $1.75 billion of Moody's adjusted US Treasury availability on a sustained basis.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- The rating on CGS and Project 1 revenue bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

- BPA's ratings could be lowered if we expect reserves for risk falls below 45 days cash on hand, if the adjusted availability under the US Treasury line declines significantly below $1.25 billion on a sustained basis or if BPA experiences delays in receiving full recovery of costs. Other factors that could lead to a downgrade include any sign of waning federal government support or a material decline in the proportion of subordinated, deferrable debt owed to the US Treasury.

LEGAL SECURITY

CGS and Project 1 revenue bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. There are no debt service reserves. The net billing agreement obligates the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project.

In 2006, ENW and BPA adopted a new direct pay agreement whereby BPA directly pays ENW for amounts due under the net billing agreements.

USE OF PROCEEDS

Proceeds from Project 1 revenue bonds will be used to refinance all or a portion of Project 1's 2015-A bonds and pay transaction costs. CGS will use the bonds proceeds to refinance all or a portion of CGS's Series 2006-A, 2007-B, 2008-B, 2010-B, 2010-C, 2012-A, 2014-A, 2015-A, 2015-B, 2017-B, 2019-A, and 2020-A bonds and pay transaction costs. CGS could increase the offering depending on market conditions and the additional proceeds would be used to fund capital spending at its nuclear plant. The refinancing for both projects serves to significantly extend debt maturities as part of BPA's regional cooperation debt program.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . An additional methodology used in these ratings was US Municipal Joint Action Agencies Methodology published in August 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1163699 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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