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## Summary:

# Bonneville Power Administration, Oregon; Wholesale Electric

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## Summary:

# Bonneville Power Administration, Oregon; Wholesale Electric

### Credit Profile

US\$301.245 mil columbia generating sta elec rev and rfdg bnds ser 2020-A due 07/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New
US\$54.155 mil proj 1 elec rev rfdg bnds ser 2020-A due 07/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New
US\$9.2 mil columbia generating sta elec rev and rfdg bnds ser 2020-B due 07/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New
US\$0.545 mil proj 1 elec rev rfdg bnds ser 2020-B due 07/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New
<b>Energy Northwest, Washington</b>		
Bonneville Pwr Admin, Oregon		
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

## Rating Action

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

- \$54.155 million Project 1 electric revenue refunding bonds, series 2020-A;
- \$301.245 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2020-A;
- \$545,000 Project 1 electric revenue refunding bonds, series 2020-B (taxable); and
- \$9.2 million CGS electric revenue refunding bonds, series 2020-B (taxable).

At the same time, S&P Global Ratings affirmed its 'AA-' ratings on existing parity ENW debt and the several nonfederal obligations that Bonneville Power Administration (BPA), Ore. pays as an operating expense of its electric system. The outlook is stable.

BPA will pay the bonds' debt service as operating expenses of its electric system and ENW, and BPA will use the bond proceeds to principally refund portions of ENW's existing debt and for capital improvements.

### Credit overview

The 'AA-' rating on the nonfederal debt that BPA supports, including the ENW debt, reflects Bonneville's contractual obligations to support the debt, and the application of our government-related entities (GRE) criteria, titled "Rating Government-Related Entities: Methodology And Assumptions" (published March 25, 2015). We assess BPA's stand-alone credit profile (SACP) 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 BPA 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.' sovereign credit profile as lifting the ratings on the nonfederal obligations that BPA supports above the utility's SACP.

The rating reflects our view of BPA's:

- Status as a federal agency;
- Ongoing financial support from the federal government through long-term loans and credit lines;
- Ability to defer repayments of federal obligations if it is in financial distress, which we view as benefitting nonfederal lenders; and
- 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.

We view these factors as tempering the preceding strengths:

- Under our GRE criteria, we believe that ENW's and other issuers' capital market debt that Bonneville supports is less likely to garner the same level of congressional support in periods of extraordinary financial distress, as would debt issued directly in the name of a government agency.
- Congress has not adjusted BPA's borrowing authority since 2009, when it increased 73% to \$7.7 billion. The utility's projected \$4.4 billion of 2020-2024 capital spending compared with \$2.4 billion of remaining borrowing capacity underscores the significance of the borrowing cap.

Our SACP reflects our assessment of Bonneville's:

- Exceptionally broad and diverse service territory, covering all or portions of eight western states, that supports the revenue stream.
- Robust nonfederal accrual debt service coverage of 2.5x-3.0x in 2017-2019, but lower than peak levels of 4.5x-4.8x in 2015-2016. In recent years, lower coverage relative to 2015-2016, partially reflects 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 and 1.1x in 2019, up from 1.0x in 2017. The combined coverage of federal and nonfederal debt service partially reflects the influence of significant accelerated payments of federal appropriations debt.
- Unrestricted cash and investments that declined to \$524 million in 2019, a level equivalent to 2.5 months' operating expenses net of depreciation. The declining liquidity trend has continued for several years. By comparison, the utility reported \$1.3 billion of unrestricted cash and investments in both 2014 and 2015. We consider maintaining a sound liquidity cushion to be an important hedge against variable hydrology conditions, volatile revenues from surplus power sales, the credit risks inherent in biennial rate cases, and the high threshold for intra-period rate adjustments. The utility's 2018-2023 strategic plan projects unrestricted cash and investments declining to levels equivalent to 60 days' operating expenses.
- Strategic plan covering 2018-2023 assumes rate setting will support a 97.5% probability of meeting all federal and nonfederal obligations.

- Strategic goals include paring BPA's unused federal borrowing capacity to \$1.5 billion from \$2.4 billion.
- Highly politicized and protracted biennial rate proceedings that could delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility. Bonneville's 2020-2021 power rates remain unchanged with an average Tier 1 rate of \$35.62 per megawatt hour . However, for 2020, BPA added a one-year \$30 million surcharge. The surcharge represents a 1.0% increase compared with 2019's power revenues. At the same time, BPA raised transmission rates 3.6%.
- Declining competitiveness relative to gas-fired and renewable regional generation resources.
- Tiered rates underlying the customer contracts 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.
- Capital needs associated with aging infrastructure.
- Multi-decade fish and wildlife remediation obligations tied to the hydroelectric projects.

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 erode the relative competitiveness of BPA resources. In addition, the costs of addressing aging infrastructure are eroding the utility's generation competitiveness. Management reports that it needs to enhance competitiveness and demand for the BPA's output to preserve the utility's customer base before its 20-year preference customer contracts expire in 2028. Tempering the competitiveness of BPA power relative to the low prices of intermittent low-cost renewable resources is the supply certainty that Bonneville's around-the-clock resources provide customers.

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.

The stable outlook reflects our view that the SACP can withstand a further downgrade to the U.S. Additional factors supporting the stable outlook include rate adjustments for the 2020-2021 period, adding a surcharge in fiscal 2020, and implementing cost-cutting strategies to induce customers to renew long-term power sales contracts.

### **Environmental, social, and governance factors**

BPA predominantly sells power from non-carbon-emitting nuclear and hydroelectric resources, which limits the utility's exposure to the costs and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. Hydroelectric projects provide about 80% of the energy BPA sells, and a nuclear project provides about 14%. However, BPA's reliance on an extensive network of 31 hydroelectric dams exposes the utility to substantial ongoing remediation costs for fish passage and fish habitats.

In recent years, reductions in the relative competitiveness of BPA's electricity supply relative to that of other regional resources could present a social risk that could limit the utility's financial flexibility. Furthermore, we are monitoring whether the health and safety responses to the COVID-19 pandemic adversely affect BPA's power sales and finances.

We associate governance risk with the utility, because it faces a large capital program that necessitates federal borrowings. The federal government has imposed on Bonneville a \$7.7 billion limit on its Treasury borrowing capacity. As of Sep. 30, 2019, \$2.4 billion remained, but the utility projects nearly \$4.4 billion of 2020-2024 capital spending. Tempering this risk is the important role BPA plays in meeting key U.S. government economic, social, and political objectives and in the implementation of key regional policies.

## **Stable Outlook**

### **Downside scenario**

We could lower BPA's SACP and our ratings on nonfederal debt if capital project financings, environmental compliance or COVID-19-related recessionary pressures cause sustained coverage of combined federal and nonfederal debt service to decline below 1.0x and unrestricted cash and investments to materially drop below current levels.

### **Upside scenario**

We do not expect to raise the SACP or the debt ratings because of BPA's sizable capital spending needs, the debt ceiling's limitations, and recessionary pressures as a result of COVID-19.

## **Credit Opinion**

In addition to responsibility for debt service on \$6.875 billion of federal debt obligations, Bonneville is the obligor on \$7.6 billion of ENW and other nonfederal debt. BPA's nonfederal debt includes \$2.1 billion of lease obligations, and \$228 million of customer power prepayments. BPA pays nonfederal debt from net revenues before it services federal Treasury debt and appropriations.

Only Treasury debt counts toward the \$7.7 debt limit, \$5.3 billion of which was outstanding on Sep. 30, 2019. Since 2014, Bonneville has been collaborating with ENW for refunding transactions to capture debt service savings. By deferring portions of the ENW debt service that BPA supports, it creates financial capacity to retire portions of higher-interest federal appropriation debt more quickly. The savings enable Bonneville to preserve Treasury borrowing capacity. However, based on capital spending projections, Bonneville expects to reduce its headroom to \$1.6 billion from \$2.4 billion by 2023. The utility labels its use of ENW debt extensions to reduce appropriations and Treasury debt (regional cooperation debt refinancings). Since 2014, BPA has re-amortized \$2.3 billion of ENW debt through refunding transactions.

ENW debt principally relates to one completed and two abandoned nuclear projects. CGS, ENW's only completed and operating nuclear unit, has \$3.4 billion of debt. BPA purchases CGS' output for resale to its customers. The incomplete nuclear units 1 and 3 have \$1.7 billion of debt. ENW projects \$499.5 million of 2020-2024 capital spending. BPA will support most of the debt that ENW will issue to fund this capital spending.

ENW has repeatedly entered into credit facilities to enable BPA to defer portions of ENW operating expenses and debt service. The mechanics entail ENW drawing on the facilities to cover portions of operating expenses pending the credit facilities' expiration. This arrangement enables BPA to apply the deferred payments to federal debt reduction. ENW retires these facilities by issuing long-term debt on which BPA is the obligor.

**Ratings Detail (As Of May 12, 2020)**

**Energy Northwest, Washington**

Bonneville Pwr Admin, Oregon

Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)

*Long Term Rating* AA-/Stable Affirmed

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

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) columbia generating sta elec rev rfdg bnds

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) electric rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2016-A due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev and rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2016-B due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2014-C due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2016-A due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds ser 2017-A dtd 05/03/2017 due 07/01/2026-2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2025

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B dtd 05/03/2017 due 07/01/2020 2025

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (taxable) (Bonneville Pwr Admin) ser 2018-D due 07/01/2023

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2026

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2017-A dtd 05/03/2017 due 07/01/2018 2025 2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2018-C due 07/01/2028

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B dtd 05/03/2017 due 07/01/2020 2025

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds

*Long Term Rating* AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)

*Long Term Rating* AA-/Stable Affirmed

<b>Ratings Detail (As Of May 12, 2020) (cont.)</b>		
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj #1)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Northern Wasco Cnty Peoples Util Dist, Oregon</b>		
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
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Northwest Infrastructure Financing Corp., New York</b>		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRAns		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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