

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

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Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)		
<i>Long Term Rating</i>	AA-/Stable	Rating Assigned
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Rating Assigned
Energy Northwest (Bonneville Pwr Admin) WHLELC		
<i>Long Term Rating</i>	AA-/Stable	Rating Assigned

## Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to Energy Northwest (ENW), Wash.'s following series of proposed bonds:
  - \$16.26 million Project 1 electric revenue refunding bonds, series 2023-A, due July 1, 2034
  - \$428.75 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2023-A, due July 1, 2039
  - \$73.12 million Project 3 electric revenue refunding bonds, series 2023-A, due July 1, 2033
- At the same time, S&P Global Ratings affirmed its 'AA-' rating with a stable outlook on ENW's existing nuclear Projects 1 and 3 debt, CGS debt, and additional nonfederal obligations, which Bonneville Power Administration (Bonneville or BPA), Ore. pays as an operating expense of its electric system.
- ENW will use bond proceeds to refund portions of its existing debt and for CGS capital improvements.
- The outlook is stable.

## Security

BPA is obligated to pay the bonds' debt service as an operating expense of its electric system, irrespective of whether the CGS, Project 1, or Project 3 nuclear projects produce electricity.

## 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 entity (GRE) criteria. We assess BPA's stand-alone credit profile (SACP) to be 'a+' 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. Our assessment of the likelihood of

government support reflects 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, and provides a one-notch uplift above the SACP.

A key rating factor remains Bonneville's statutory obligation to pay nonfederal debt from net revenues before it services deferrable federal Treasury debt and appropriations.

Our 'a+' SACP reflects the utility's sizable capital needs, the inability of BPA to directly access capital markets, and debt service coverage (DSC) of total federal and nonfederal obligations of less than 1.0x in 2019-2020. However, in 2021 and 2022, DSC of federal and nonfederal debt and the utility's liquidity strengthened because of favorable hydrology conditions that created surplus power sales opportunities that benefited from elevated market energy prices due to the year's elevated natural gas prices. The favorable financial results of 2021-2022 are not necessarily predictive of future financial performance, which hinges on hydrology conditions, wholesale power market prices, and the effects of the utility's plans to apply significant portions of the 2021-2022 surpluses as customer bill credits. Management projects that the bill credits will reduce BPA's fiscal 2023 net revenues.

Bonneville supports \$7.4 billion of nonfederal debt and \$7.3 billion of federal debt that includes \$1.6 billion of federal appropriations debt and \$5.7 billion of Treasury borrowing.

Bonneville's Treasury borrowings are subject to a congressionally imposed borrowing limit. Prior to November 2021's enactment of the Infrastructure Investment and Jobs Act (IIJA), BPA faced a \$7.7 billion borrowing limit that Congress established in 2009. The IIJA increased the borrowing limit to \$13.7 billion until 2028 and to \$17.7 billion commencing at the start of fiscal 2028. The upsizing of the utility's borrowing authority is significant because BPA projects nearly \$5 billion of 2023-2027 capital spending needs, which likely would have exhausted its Treasury borrowing capacity if Congress had not acted. Therefore, the IIJA's creation of additional borrowing capacity mitigates downward pressure on our SACP on Bonneville.

Debt issued by ENW for its three nuclear projects represents 69% of the \$7.4 billion of nonfederal debt that BPA services. CGS is ENW's only completed and operating nuclear unit and BPA purchases all the output of CGS. ENW halted construction on units 1 and 3 in the 1980s. BPA purchases CGS' output for resale to its customers. The incomplete nuclear units 1 and 3 reported nearly \$1.8 billion of debt as of Sept. 30, 2022. In recent years, units 1 and 3 debt balances have been virtually unchanged due to reamortizations that defer portions of debt service by extending maturities to create cash flow to support capital projects and facilitate accelerated retirement of more expensive federal appropriations debt. Bonneville labels its use of ENW debt extensions "regional cooperation debt refinancings." CGS debt increased modestly to \$3.3 billion at fiscal year-end 2022, up from \$3.1 billion at Sept. 30, 2020, reflecting capital investments in the operating nuclear unit.

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

We believe Bonneville's environmental risks are manageable. Bonneville Tier 1 electric sales to municipal, cooperative, and tribal preference customers are predominantly from federal hydroelectric projects and complemented by ENW's nuclear facility. Consequently, the utility has a very low carbon footprint, limiting, but not eliminating environmental risks. Bonneville and its ratepayers face considerable and seemingly perpetual costs of remediating fish and wildlife habitats surrounding the hydroelectric facilities, along with the costs of related litigation and regulatory proceedings. Bonneville also faces the environmental risks inherent in ENW's spent nuclear fuel disposal. Although Tier 2 electric

sales that exceed the generation capabilities of Bonneville's resources can include carbon-based, conventional generation, these sales represent a small portion of energy sales.

Social risks are credit neutral, in our view. Protracted rate proceedings manifest customers' resistance to rate increases. Tempering this exposure is our view that the utility's favorable wholesale rates limit affordability issues that could create social risks. Adding to social pressures, S&P Global Economics projects that the U.S. economy will likely fall into a shallow recession in 2023, tempered by generally strong labor demand. (See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.) Consequently, we continue to monitor the strength and stability of the revenue streams of public power utilities for evidence of delinquent payments or other revenue erosion because rising consumer prices and interest rates are whittling discretionary incomes.

We view regional resistance to rate adjustments as presenting a moderately negative governance risk. This resistance is manifest in management's reliance on biennial rate adjustments and barriers to the contemporaneous recovery in rates of unbudgeted costs incurred between rate proceedings. Moreover, management is conducting customer forums in connection with the 2028 expiration of its preference contracts with customers.

## Outlook

The stable outlook reflects our stable outlook on the U.S. sovereign rating, the breadth of the Bonneville service territory, the regional essentiality of the firm power Bonneville sells, the benefits of long-term power sales contracts with customers, and the additional borrowing capacity that the IIJA created, which alleviates some of the financial pressures of a large capital program.

### Downside scenario

The IIJA's upsizing of BPA's Treasury borrowing capacity reduces the risk of our revising down the SACP and lowering the rating for lack of access to capital as BPA's capital program proceeds. Nevertheless, we could revise down the SACP and lower the rating if Bonneville faces adverse power market and hydrology conditions that erode all-in federal and nonfederal DSC and liquidity. A lower sovereign rating or negative outlook on the sovereign rating could lead to a change to the rating or outlook for BPA.

### Upside scenario

We do not expect to revise up the SACP as the utility addresses substantial capital needs and faces the limited financial flexibility that biennial rate cases provide. In addition, we view financial performance as susceptible to hydrology conditions and the market prices BPA earns from surplus energy sales.

## Credit Opinion

The 'AA-' rating reflects our view of the following factors:

- 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 benefiting 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 are the almost \$5 billion of 2023-2027 capital spending needs at BPA and \$744 million at ENW that BPA will support. In addition, we view BPA's financial performance as susceptible to hydrology conditions and market prices for the surplus power it sells.

Our SACP reflects our assessment of the following factors:

- Bonneville has an exceptionally broad and diverse service territory that supports the revenue stream.
- Robust nonfederal accrual DSC of at least 3.0x since 2019 reflects the uplift that deferred ENW debt amortization and operating expenses provide, in addition to the highly favorable 2021-2022 hydrology conditions that facilitated surplus power sales at advantageous prices.
- Unrestricted cash and investments increased to nearly \$2.2 billion at Sept. 30, 2022, up from \$1.2 billion at Sept. 30, 2021 and \$847 million at Sept. 30, 2020, reflecting surplus sales activity. The 2022 fiscal year-end liquidity balances were equivalent to 10 months' operating expenses.
- Bonneville's 2018-2023 strategic plan assumes rate setting that will support a 97.5% probability of meeting all federal and nonfederal obligations.
- Highly politicized and protracted biennial rate proceedings could delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility.
- 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.
- A rate-setting construct that exposes BPA to the costs of augmenting its hydroelectric resources with market purchases to fulfill customers' allotted energy needs during low water conditions. The potential for BPA to face a short position during periods of poor hydrological conditions could saddle the agency with costs that erode liquidity because, except in extreme circumstances, it is unable to adjust rates between rate cases except in extreme circumstances.

We view a sound liquidity cushion as 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. Based on management's plans to return some of 2022's surplus margins to customers as bill credits, we anticipate lower non-federal DSC and liquidity in 2023.

Management reports it is focusing on enhancing competitiveness and demand for the utility's output to preserve its customer base before BPA's 2012-2028 preference customer contracts expire.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of April 19, 2023)		
Bonneville Pwr Admin columbia generating station elec rev and rfdg bnds ser 2022-A due 07/01/2041		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin columbia generating station elec rev rfdg bnds ser 2022-B due 07/01/2041		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin columbia generating sta elec rev and rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin columbia generating sta elec rev and rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin proj 1 elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin proj 1 elec rev rfdg bnds ser 2022-A due 07/01/2041		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin proj 1 elec rev rfdg bnds ser 2022-B due 07/01/2041		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin Columbia Generating Station Electric Rev and Rfdg Bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin Columbia Generating Station Elec Rev and Rfdg Bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin Project 1 Electric Revenue Refunding Bonds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin Project 1 Elec Rev Rfdg Bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin Project 3 Elect Rev Rfdg Bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Energy Northwest, Washington</b>		
Bonneville Power Administration, Oregon		
Energy Northwest (Bonneville Pwr Admin) columbia generating sta elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) electric rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2016-A due 07/01/2028		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028		

<b>Ratings Detail (As Of April 19, 2023) (cont.)</b>		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2014-C due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2016-A due 07/01/2028		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2025		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-C due 07/01/2026		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2018-C due 07/01/2028		
<i>Long Term Rating</i>	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		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)		
<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
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Northern Wasco County Peoples Utility District, Oregon</b>		
Bonneville Power Administration, 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
<b>Northwest Infrastructure Financing Corp., New York</b>		
Bonneville Power Administration, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANs		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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