MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 rating to Energy Northwest's (WA) Project 1, Project 3 and Columbia Generating Station Revenue Bonds Series 2021; Outlooks are stable

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Approximately $716 million of debt affected

New York, May 03, 2021 -- Moody's Investors Service has assigned a Aa2 rating to Energy Northwest's (WA) (ENW) $69.3 million Project 1 Electric Revenue Refunding Bonds, Series 2021-A, $529.6 million Columbia Generating Station (CGS) Electric Revenue and Refunding Bonds, Series 2021-A, $15.7 million Project 3 Electric Revenue Refunding Bonds, Series 2021-A, $0.4 million Project 1 Electric Revenue Refunding Bonds, Series 2021-B (Taxable), $100.8 million Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2021-B (Taxable). The rating outlooks for Bonneville Power Administration and Energy Northwest Project 1, Project 3, CGS are stable.

RATINGS RATIONALE

The Aa2 rating assignment on ENW's Project 1, Project 3 and CGS's revenue bonds 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.

For the fiscal year ending September 2021 (FY2021), we expect BPA's financial performance to moderate following FY2020's better than expected performance. High power demand and associated high wholesale market prices for power during the 2020 summer heat wave in the Western US contributed to FY2020's strong financial performance, which led to internal liquidity increasing to around 118 days cash on hand. For the current fiscal year, the latest forecast for regional hydrology indicates below average water levels at around 86% of the historical average. The below average hydrology could to have a negative effect on BPA's financial performance and contribute to a drop in reserves although we understand BPA has benefited from higher wholesale power prices that could offset the lower generation. Looking forward, we expect internal liquidity will go below 100 days cash on hand driven by the end of FY2021 due to the release of around $80 million of reserves at the transmission business. The excess transmission reserves were used to reduce debt owed to the US government as allowed under BPA's reserve policy.

Post FY2021, BPA has proposed new rates for the upcoming two-year, FY2022-2023 period that does not incorporate a rate increase for power customers on average but an 11.6% rate increase for transmission customers. Positively, the proposed rates for both power and transmission customers incorporates increased revenue financing totaling up to $145 million per year for capital spending although the amount is still modest relative to BPA's consolidated capital spending requirements forecasted at an average of $945 million per year over the FY2022-2023 period. While the final rates implemented by BPA can be different than those currently proposed, we expect BPA's rates will lead to consolidated debt service coverage of around 1.0x with internal liquidity likely in the upper end of the 60 to 90 day range and net availability under the US Treasury line at around $1.65 billion over the two year rate period.

RATING OUTLOOK

BPA's stable outlook considers BPA's proposed FY2022-2023 rates and reserves for risk likely trending below BPA's 90 days cash on hand over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

" The rating on the Project 1, Project 3 and CGS revenue bonds could be upgraded if BPA is upgraded.

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

" The rating on the Project 1, Project 3 and CGS revenue bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated or challenged.

" BPA's ratings could be lowered if 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

Project 1, Project 3, and CGS revenue bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. 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 voluntary, direct pay agreement whereby BPA directly pays ENW for amounts due under the net billing agreements. There are no debt service reserves.

USE OF PROCEEDS

Proceeds from Project 1 and Project 3 revenue bonds will be used to refinance bank lines and maturing bonds to extend maturities. CGS will use approximately $205 million of the proceeds for capital spending and fuel purchases with the remaining proceeds used to refinance and extend debt maturities. The debt maturity extensions are according to BPA's Regional Cooperation Debt 2 program.

PROFILE

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for 22 GW of federally owned hydro generation and 15,000 miles of electric transmission assets in the US Pacific Northwest spanning all or parts of eight states. The US Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. BPA's obligations are not backed by the full faith and credit of the US government and its cash payments are limited to funds available in the Bonneville Fund.

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 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1207102 . 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.

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