

# BONNEVILLE'S FINANCIAL PLAN REFRESH AND ITS CREDIT RATINGS

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# ASSESSING BONNEVILLE'S STAND-ALONE CREDIT QUALITY

- Independent assessments of Bonneville's credit and financial profiles (Fitch, Moody's, S&P)
  - Range of methodologies and external factors considered
- Sector rating methodologies are publicly available
- Analysis of Bonneville appears somewhat disconnected from consideration of appropriate peer utilities
- Fundamental factors such as market and contractual position appear to drive outcomes more than debt ratios
- Bonneville's financial strategies, policies, and targets factor into rating

*Table 1: Comparison of Rating Symbols and Meaning at Upper End of Rating Scales*

| Fitch | Moody's | S&P  | 5-year default rate | Market interpretation |                  |
|-------|---------|------|---------------------|-----------------------|------------------|
| AAA   | Aaa     | AAA  | 0.14%               | Prime                 | Investment Grade |
| AA+   | Aa1     | AA+  | 0.64%               | High Grade            |                  |
| AA    | Aa2     | AA   |                     |                       |                  |
| AA-   | Aa3     | AA-  |                     |                       |                  |
| A+    | A1      | A+   | 1.06%               | Upper Medium Grade    |                  |
| A     | A2      | A    |                     |                       |                  |
| A-    | A3      | A-   |                     |                       |                  |
| BBB+  | Baa1    | BBB+ | 2.31%               | Lower Medium Grade    |                  |
| BBB   | Baa2    | BBB  |                     |                       |                  |
| BBB-  | Baa3    | BBB- |                     |                       |                  |

$$\text{Debt-to-asset ratio} = \frac{(\text{Federal debt} + \text{Nonfederal debt})}{(\text{Net Utility Plant} + \text{Nonfederal generation})}$$

## THE ROLE OF THE TREASURY LINE

- Bonneville benefits from several layers of Federal support
- The sizeable increase in Bonneville's borrowing authority passed in the Infrastructure Investment and Jobs Act has yet to be incorporated in ratings
- The rating agencies all assign meaningful importance to the credit positive features of BPA's Federal support



# THE RATING AGENCIES' ANALYSIS IN DETAIL

- Breakdown of each agency's analysis: methodology, critical rating drivers, incorporation of Federal support, leverage and funding mix analysis, and conclusion on rating sensitivities
- Fitch
  - Assigns AA rating with stable outlook to bonds backed by Bonneville's credit
  - Detailed ratio analysis and comparison to BPA targets possible
  - Fitch assigns AAA rating with stable outlook to federal debt securities
- Moody's
  - Assigns Aa2 rating with stable outlook to bonds backed by Bonneville's credit
  - Detailed ratio analysis and comparison to BPA targets possible
  - Moody's assigns Aaa rating with stable outlook to federal debt securities
- S&P
  - Assigns AA- rating with stable outlook to bonds backed by Bonneville's credit
  - S&P assigns AA+ rating with stable outlook to federal debt securities

$$\text{Fitch Ratings Leverage} = \frac{\text{Net Adjusted Debt}}{\text{Adjusted Funds Available for Debt Service (FADS)}}$$

$$\text{MOODY'S Adjusted Debt Ratio (\%)} = \frac{\text{(Total Debt Net of Debt Service and Debt Service Reserve Funds) + Adjusted Net Pension Liability}}{\text{(Fixed Plant Assets Net of Accumulated Depreciation + Net Working Capital)}}$$

## KEY ANALYTICAL COMPARISONS

- Global comparative analysis, ‘re-connecting’ Bonneville to a better set of peers than U.S. wholesale utilities
- Comparison of BPA to: Fingrid Oyj (Finland), Hydro Québec (Canada), Statnett (Norway), and the Tennessee Valley Authority
- Considering alternative indicators of credit risk: market pricing and internal bank ratings

|   | Bonneville                          | Fingrid Oyj  | Hydro-Québec         | Statnett                                    | Tennessee Valley Authority                  |
|---|-------------------------------------|--|----------------------|---|---|
| <i>Supporting Government</i>                                  | USA                                 | Finland  | Province of Québec   | Norway                                      | USA   |
| <b>Supporting Government's Rating (Fitch/Moody's/S&amp;P)</b> | AAA/Aaa/AA+                         | AA+/Aa1/AA+  | AA-/Aa2/AA-          | AAA/Aaa/AAA                                 | AAA/Aaa/AA+                                 |
| <b>Stand-Alone Utility Rating (F/M/S)</b>                     | AA-/Aa2/A+                          | A/A2/A+  | AA-/Aa2/AA-          | not rated/Baa2/BBB                          | AA/Aa1/AA-                                  |
| <b>Type of Government Support</b>                             | Treasury Borrowing & Appropriations | Majority Ownership and Potential Supportive Financial Intervention | Provincial Guarantee | Potential Supportive Financial Intervention | Potential Supportive Financial Intervention |
| <b>Notches Uplift (F/M/S)</b>                                 | 1/0/1                               | 0/1/1  | 0/0/0                | not rated/3/4                               | 2/1/2                                       |
| <b>Final Rating Incorporating Support (F/M/S)</b>             | AA/Aa2/AA-                          | A/A1/AA-   | AA-/Aa2/AA-          | not rated/A2/A+                             | AAA/Aaa/AA+                                 |
| <b>2020 Debt Ratio per BPA Formula</b>                        | 82%                                 | 73%  | 70%                  | 80%   | 67%   |

## CONCLUSIONS

1. Bonneville benefits from significant financial flexibility at high rating levels and there is no compelling need from a ratings or market perspective to reduce Bonneville's debt-to-assets ratio much below 80%
2. When compared to a more appropriate set of peers than simply U.S. municipal wholesalers, Bonneville's leverage looks to be in line with peers and defensible given the features of the other entities
3. Banks and other market participants appear to view Bonneville's credit standing as relatively close (sometimes identical) to the U.S. government's own debt
4. Given a less specific methodology, there is uncertainty about how S&P's rating may respond to developments in Bonneville's overall credit profile