Energy Northwest, WA's Series 2025A And B Bonds Assigned 'AA-' Rating; Outlook Stable; Other Ratings Affirmed At 'AA-'

April 25, 2025

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Overview

- S&P Global Ratings assigned its 'AA-' rating to the following Energy Northwest (ENW), Wash.'s series of proposed bonds: $260.71 million series 2025-A Project 1 electric revenue refunding bonds, $407.78 million series 2025-A Columbia Generating Station (CGS) electric revenue and refunding bonds, $173.685 million series 2025-A Project 3 electric revenue refunding bonds, and series 2025-B $109.045 million CGS electric revenue bonds, (taxable).
- At the same time, S&P Global Ratings affirmed its 'AA-' rating 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.
- The outlook on all ratings is stable.

Rationale

Security

Richland, Wash.-based ENW, the issuer of the bonds, will use bond proceeds to refund portions of its existing debt and for CGS capital improvements. Portland, Oregon-based 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.

As of fiscal year-end Sept. 30, 2024, Bonneville supported $7.3 billion of nonfederal debt, which includes $4.9 billion of ENW nuclear debt. In addition, Bonneville reported $7.7 billion of federal Treasury and appropriations borrowings at fiscal year-end 2024.

Credit highlights

The 'AA-' rating on the nonfederal debt that BPA supports, including the ENW debt, reflects Bonneville's contractual obligation to support the debt and the application of our government-related entity (GRE) criteria, published March 15, 2015. We assess BPA's stand-alone credit profile (SACP), to which we apply our GRE analysis, at '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 is 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, the absence of a vehicle for intraperiod rate adjustments except in extreme circumstances, and the susceptibility of accrual debt service coverage (DSC) of total federal and nonfederal obligations to variable hydroelectric conditions, market conditions for sales of surplus hydroelectric production, and management elections to provide preference customers with bill credits allocating to them portions of previous years' surplus margins in the form of its reserves distribution clause (RDC) rate reductions that serve as a rate stabilization tool.

Hydrology and market conditions that depressed surplus power sales margins, along with RDC rate reductions, led to DSC of total federal and nonfederal obligations that was less than 1.0x in fiscal years 2019-2020 and 2023-2024. However, although DSC of total debt service fluctuates above and below 1.0x, which causes liquidity to wax and wane, DSC of nonfederal debt service payable ahead of deferrable federal debt service was consistently at least 2.0x during fiscal years 2019-2024. Notably, BPA can defer federal debt payments if necessary to service nonfederal debt.

Coincident with recent years' application of the RDC, including bill credits of $363 million in fiscal 2023 and $165 million in fiscal 2024, unrestricted cash and investments declined to $1.4 billion as of Sept. 30, 2024, down from $2.2 billion as of Sept. 30, 2022. The decline reduced days' cash on hand to 148 days as of Sept. 30, 2024, from 309 days as of Sept. 30, 2022. Access to a $750 million U.S. Treasury short-term credit facility, which renews annually, provides an additional liquidity cushion.

Bonneville faces litigation challenging the 2022 and 2023 bill credits. Plaintiffs claim that surplus margins should be applied to fish and wildlife mitigation in lieu of bill credits. BPA is also facing litigation asserting that it is liable for $2 billion in damages related to the 2020 Holiday Farm wildfire that plaintiffs attribute to its transmission lines. It is too early to determine whether plaintiffs' claims are meritorious or, if so, will be payable by Bonneville or the U.S. Judgment Fund.

BPA's Treasury borrowings are subject to a congressionally imposed borrowing limit. The November 2021 Infrastructure Investment and Jobs Act (IIJA) increased BPA's borrowing limit to $13.7 billion from $7.7 billion. At the start of fiscal 2028 (Oct. 1, 2028), the cap will increase to $17.7 billion. The upsizing of the utility's borrowing authority provides significant support to the SACP because Bonneville projects $8.6 billion of capital spending during fiscal years 2025-2029. Management reports that load growth requirements might translate into significantly more capital spending requirements. In addition, ENW projects $1.9 billion of 2025-2029 capital projects whose costs Bonneville and its customers will support.

The $4.9 billion of debt outstanding that ENW issued for the three nuclear projects it owns represents 67% of the $7.3 billion of nonfederal debt that BPA services. CGS is ENW's only completed nuclear unit. ENW halted construction on units 1 and 3 in the 1980s.

BPA purchases all of CGS' output for resale to its customers. The incomplete nuclear units 1 and 3 reported more than $1.7 billion of debt as of June. 30, 2024. In recent years, the debt balances related to the nuclear units 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. BPA will face significant increases in ENW debt service in fiscal years 2025-2029 before ENW debt service moderates in fiscal 2030. Management does not forecast the effects of the 2025-2029 capital spending increases on DSC. Additional reamortizations of ENW debt could shift debt service to later years and produce increased annual debt service requirements that are currently not projected.

Environmental, social, and governance

We believe Bonneville's power production operations face exposures to environmental risks associated with perpetual hydrological conditions and fish habitat considerations. The administration's high voltage electricity transmission network also exposes the utility to physical environmental risks because of vulnerability to wildfire claims.

BPA's principal electric sales are its tier 1 electric sales to municipal, cooperative, and tribal preference customers and it makes three-quarters of these sales from emissions-free federal hydroelectric projects. Another 13% of the electricity BPA sells comes from ENW's non-emitting nuclear facility. Consequently, the utility has a very low carbon footprint, limiting, but not eliminating, environmental risks.

Bonneville faces 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.

BPA and its ratepayers face considerable and seemingly perpetual costs of remediating fish and wildlife habitats surrounding the hydroelectric facilities. Recent settlement agreements suspend for 10-20 years litigation challenging BPA's fish mitigation programs in exchange for Bonneville's commitment to make defined payments for fish remediation programs. The agreements suspending the litigation are facing judicial challenges.

Bonneville's exposure to physical climate risks also manifests in multiple litigations asserting that BPA is liable for $2 billion in damages related to 2020's Holiday Farm fire. Its management represents that if plaintiffs prevail, the U.S. Judgment Fund, rather than Bonneville, will need to satisfy the judgments.

We view social exposures as credit neutral because the utility's favorable wholesale rates reflect the low variable costs of hydroelectric and nuclear generation and limit affordability issues. Nevertheless, protracted rate proceedings and management's preference for infrequent biennial rate cases, manifest customers' resistance to rate increases.

We continue to monitor the strength and stability of electric utilities' revenue streams given ongoing inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), coupled with higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. S&P Global Ratings believes the administration's imposition of tariffs could exacerbate inflation by 50-70 basis points but observes that forecasting the duration and impact of tariffs is complicated by the high degree of unpredictability around policy implementation (see "'Liberation Day' Tariff Announcements:First Take On What It Means For U.S. And Global Outlook," published April 3, 2025, on Ratings Direct). The economy's stressors and the associated financial pressures consumers face might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which in turn could negatively affect utilities' financial metrics. Following stronger-than-expected U.S. economic growth through fourth-quarter2023, S&P Global Economics revised its 2024 real GDP growth forecast to 2.4% from its November 2023 projection of 1.5%. S&P Global Economics believes that recent business and consumer activity is not sustainable and projects slowing economic activity with growth of 1.5% in 2025.

We view regional resistance to rate adjustments as presenting a moderately negative governance risk because we consider the resistance as diminishing management's ratemaking latitude. In addition to management's reliance on biennial and triennial rate adjustments, management faces substantial hurdles to contemporaneously recovering in rates unbudgeted costs incurred between rate proceedings. The lengthy periods between rate cases emphasizes the importance of balance-sheet liquidity as a shock absorber, but unrestricted cash and investments at Sept. 30, 2024, were one-third less than amounts available at Sept. 30, 2022. Management is conducting customer forums in connection with the 2028 expiration of its contracts for electric sales to preference customers, which presents an element of uncertainty surrounding final contract terms. Management’s plan to adopt rates that will remain in effect through the past three years of the existing customer contracts, rather than the typical two-year rate periods, to reduce the number of rate proceedings, compounds uncertainty considerations because of the high barrier to implementing intra-period rate adjustments.

The absence of financial forecasts also negatively influences our management assessment.

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 it 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 the large capital program's access to funds.

Downside scenario

The IIJA's upsizing of BPA's Treasury borrowing capacity reduces the risk of our revising downward the SACP and lowering the rating for lack of access to capital as BPA's capital program proceeds. Nevertheless, we could do both if Bonneville faces adverse power market and hydrology conditions that erode coverage and liquidity metrics with or without the use of the reserves distribution clause. A lower sovereign rating or negative outlook on the sovereign rating could lead us to lower our rating or revise the outlook downward on BPA.

Upside scenario

We do not expect to revise upward the SACP as the utility addresses substantial capital needs and faces the limited financial flexibility that biennial and triennial 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 faces 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 15 million in eight states, provides power that is critical to the region's economic health, and operates key transmission resources.

Tempering these strengths are Bonneville’s projections of $8.6 billion of 2025-2029 capital spending and ENW’s projections of $1.9 billion of capital spending that BPA and its customers will support. Management also reports that load growth requirements might translate into significantly more capital spending requirements. In addition, we view BPA's financial performance as susceptible to hydrology conditions, market prices for the surplus power its sells, and management's use of RDC bill credits to return surplus revenues to customers.

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 has been at least 2.0x since 2019;
- The 2024 fiscal year-end liquidity balance of $1.4 billion was equivalent to nearly five months' operating expenses but was more than $600 million lower than in the previous year after the utility faced higher operating expenses and provided bill credits to preference customers;
- Maintaining robust liquidity is critical because of the extended time between rate proceedings and the presence of stringent preconditions that sharply limit access to intraperiod rate adjustments unless the utility faces financial distress;
- Bonneville sets rates with reference to achieving its goal of a 92.6% probability of meeting all federal and nonfederal obligations;
- Highly politicized and protracted biennial and triennial rate proceedings could delay rate relief and constrain the benefits of autonomous ratemaking authority and` financial flexibility; and
- Tiered rates underlying preference 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. Nevertheless, variability in the amount of hydroelectric production available for surplus sales can adversely influence financial performance because BPA must make market purchases to fulfill Tier 1 obligations when hydroelectric production is insufficient to discharge those obligations.

Ratings List
New Issue Ratings
US$109.045 mil columbia generating sta elec rev bnds (Bonneville Power Administration) ser 2025-B due 07/01/2030

Ratings List	
Stand-Alone Credit Profile	a+
Long Term Rating	AA-/Stable
US$173.685 mil proj 3 elec rev rfdg bnds (Bonneville Power Administration) ser 2025-A due 07/01/2039	
Stand-Alone Credit Profile	a+
Long Term Rating	AA-/Stable
US$260.71 mil proj 1 elec rev rfdg bnds (Bonneville Power Administration) ser 2025-A due 07/01/2040	
Stand-Alone Credit Profile	a+
Long Term Rating	AA-/Stable
US$407.78 mil columbia generating sta elec rev and rfdg bnds (Bonneville Power Administration) ser 2025-A due 07/01/2043	
Stand-Alone Credit Profile	a+
Long Term Rating	AA-/Stable
Ratings Affirmed	
Public Power	
Bonneville Power Admin OR Columbia Generating Station	AA-/Stable
Bonneville Power Admin OR Project 1	AA-/Stable
Bonneville Power Admin OR Project 3	AA-/Stable
Bonneville Pwr Admin, OR Wholesale Electric System Schultz-Wautoma Project	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.