MOODY'S RATINGS

Rating Action: Moody's Ratings assigns Aa1 to Energy Northwest's (WA) Project 1, Columbia Generating Station, and Project 3 electric revenue refunding bonds; Outlook is negative

23 Apr 2025

Approximately $992 million of debt affected

New York, April 23, 2025 -- Moody's Ratings (Moody's) has assigned Aa1 ratings to Energy Northwest, WA's $255 million of Project 1 (Project 1) Electric Revenue Refunding Bonds, Series 2025-A, $457 million of Columbia Generating Station (CGS) Electric Revenue and Refunding Bonds, Series 2025-A, $171 million of Project 3 (Project 3) Electric Revenue Refunding Bonds, Series 2025-A and $109 million of Columbia Generating Station Electric Revenue Bonds, Series 2025-B (Taxable). The rating outlook for Project 1, CGS, and Project 3 is negative.

RATINGS RATIONALE

The Aa1 rating assignment on Energy Northwest, WA's (Energy Northwest) Project 1, CGS, and Project 3's revenue refunding bonds considers Bonneville Power Administration's (OR) (BPA: Aa1 negative) contractual obligation to pay all costs, including debt service under each project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating.

BPA's Aa1 issuer 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 negative). BPA's 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 supportive features provided by the US government. The credit profile also acknowledges credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like rate-making process, environmental burdens, and weak consolidated financial metrics relative to peers. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

For FY 2024, BPA's financial performance improved, with Moody's adjusted net revenue increasing to $1.14 billion compared to $984 million in FY 2023. While net revenue improved, it was negatively affected by continued low regional hydrology at around 77% of average and additional customer credits that reduced revenues by around $165 million, following $366 million of customer credits in FY 2023. These customer credits followed an exceptionally strong FY 2022, which resulted in reserves for risk increasing to $1.51 billion and liquidity well above BPA's targeted level. Given the credit back to customers and low hydrology, BPA's reserves for risk decreased to $823 million for FY 2024. For FY 2025, BPA forecasts reserves for risk further declining to $460 million as higher operating expenses and another year of below average hydrology negatively affect BPA's results relative to its rate case. As of April 1, 2025, regional hydrology is forecasted to be at around 88% of average for the FY2025 water year.

In November 2024, BPA filed its proposed rates for FY 2026-2028, with a proposed 10.8% increase to the average Tier 1 power rate and a 24% increase for transmission services. A final decision on rates is expected in July 2025 for implementation on October 1, 2025.

BPA has progressed on its discussions with its preference power customers regarding new long-term arrangements that would start in FY2029 after the current contracts expire. BPA expects these contracts will be in place by the end of December 2025. Given stringent decarbonization mandates in Washington and Oregon, we expect BPA's existing power customers will execute new long-term contracts.

RATING OUTLOOK

BPA's negative outlook considers the negative outlook on the US government. The outlook on Project 1, CGS, and Project 3 reflects the negative outlook on BPA.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- BPA's rating is unlikely to be upgraded given the negative outlook. However, BPA could be upgraded if the US government's rating is affirmed at Aaa and outlook revised to stable and BPA significantly improves its financial policies leading to sustained consolidated DSCR above 1.50x, internal liquidity in excess of 250 days cash on hand, and minimum net borrowing capacity under the US Treasury line in excess of $6 billion.

- The rating on BPA-supported bonds could be upgraded if BPA is upgraded.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- BPA's rating could be downgraded if the US government's rating is downgraded, its financial policies are weakened or if its availability under the US Treasury line is materially diminished.

- The ratings on BPA-supported bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

LEGAL SECURITY

Project 1, CGS, and Project 3 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 Energy Northwest 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, Energy Northwest and BPA adopted a voluntary, direct pay agreement whereby BPA directly pays Energy Northwest 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 primarily to refund maturing or callable bonds to extend maturities or save on debt service, respectively. CGS will refund up to $304 million of callable bonds for debt service savings with the remainder of the proceeds used to fund capital spending at CGS and pay transaction costs. 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 administrations 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 published in January 2023 and available at https://ratings.moodys.com/rmc-documents/398041. An additional methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at https://ratings.moodys.com/rmc-documents/396803. Alternatively, please see the Rating Methodologies page on https://ratings.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 on https://ratings.moodys.com/rating-definitions.

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