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Summary:

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

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

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

Credit Profile

| | | |
|---|------------|-----|
| US\$514.4 mil columbia generating station elec rev and rfdg bnds (Energy Northwest) ser 2024-A due 07/01/2040 | | |
| <i>Long Term Rating</i> | AA-/Stable | New |
| US\$189.94 mil proj 1 elec rev rfdg bnds (Energy Northwest) ser 2024-B due 07/01/2027 | | |
| <i>Long Term Rating</i> | AA-/Stable | New |
| US\$66.9 mil proj 3 elec rev rfdg bnds (Energy Northwest) ser 2024-B due 07/01/2028 | | |
| <i>Long Term Rating</i> | AA-/Stable | New |
| US\$59.59 mil columbia generating station elec rev bnds (Energy Northwest) ser 2024-B due 07/01/2031 | | |
| <i>Long Term Rating</i> | AA-/Stable | New |
| US\$54.84 mil proj 3 elec rev rfdg bnds (Energy Northwest) ser 2024-A due 07/01/2037 | | |
| <i>Long Term Rating</i> | AA-/Stable | New |

Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to Energy Northwest (ENW), Wash.'s following series of proposed bonds: \$514.40 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2024-A, due July 1, 2040; \$54.84 million Project 3 electric revenue refunding bonds, series 2024-A, due July 1, 2037; \$189.94 million Project 1 electric revenue refunding bonds, series 2024-B, due July 1, 2027; \$59.59 million Columbia Generating Station electric revenue bonds, series 2024-B, due July 1, 2031; and \$66.90 million Project 3 electric revenue refunding bonds, series 2024-B, due July 1, 2028.
- 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 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. ENW will use bond proceeds to refund portions of its existing debt and for CGS capital improvements.

As of fiscal year-end Sept. 30, 2023, Bonneville supported \$7.4 billion of nonfederal debt, including \$5.2 billion of ENW nuclear debt. In addition, Bonneville reported \$7.4 billion of federal Treasury and appropriations borrowings at fiscal year-end 2023.

Credit overview

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, 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 production, and management elections to provide preference customers with bill credits allocating to them portions of previous years' surplus margins.

Unfavorable hydrology and market conditions led to DSC of total federal and nonfederal obligations that was less than 1.0x in 2019-2020. More favorable hydrology and market conditions increased DSC to 1.0x in 2021, and 1.6x in 2022. In 2023, Bonneville provided bill credits to preference customers totaling \$363 million, representing prior-period surpluses, which reduced DSC to 0.8x. However, although DSC of total debt service moves 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 2019-2023 and 2.3x in 2023 and BPA can defer federal debt if necessary. Unrestricted cash and investments of \$2 billion were equivalent to 225 days' operating expenses at fiscal year-end 2023 after providing customers with bill credits, which was down from 309 days at fiscal year-end 2022.

Bill credits are an offset to revenues and reduce revenues available for debt service. Management projects providing customers with additional credits in 2024.

Bonneville faces litigation challenging the 2023 and 2024 bill credits. Plaintiffs claim that surplus margins should be applied to fish and wildlife mitigation in lieu of bill credits. Bonneville is also facing litigation asserting that it is liable for \$2 billion of damage related to the 2020 Holiday Farm wildfire that plaintiffs attribute to Bonneville's transmission lines. It is too early to determine whether plaintiffs' claims are meritorious or, if so, will be payable by Bonneville or the United States Judgment Fund.

Bonneville supports \$7.4 billion of nonfederal debt and \$7.4 billion of federal debt that includes \$1.6 billion of federal appropriations debt and \$5.8 billion of Treasury borrowing.

Bonneville's Treasury borrowings are subject to a congressionally imposed borrowing limit. November 2021's Infrastructure Investment and Jobs Act (IIJA) increased BPA's borrowing limit to \$13.7 billion from \$7.7 billion. At the beginning of fiscal 2028, the cap will increase to \$17.7 billion. The upsizing of the utility's borrowing authority provides significant support to the SACP because BPA projects \$4.9 billion of 2024-2028 capital spending. In addition, ENW projects \$1.3 billion of 2024-2028 capital projects whose costs Bonneville and its customers will support.

The \$5.2 billion of debt outstanding that ENW issued for its three nuclear projects represents 70% of the \$7.4 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 almost \$1.8 billion of debt as of June. 30, 2023. 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 2024-2028 and reduced annual ENW debt service thereafter. Management does not forecast the effects of the 2024-2028 increases on DSC. Bonneville labels its use of ENW debt extensions "regional cooperation debt refinancings."

Environmental, social, and governance

We believe Bonneville's environmental risks present credit exposures.

Bonneville's principal electric sales are its tier 1 electric sales to municipal, cooperative, and tribal preference customers and it makes these sales predominantly from emissions-free federal hydroelectric projects. ENW's non-emitting nuclear facility complements these sales. Consequently, the utility has a very low carbon footprint, limiting, but not eliminating environmental risks.

Bonneville faces additional 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.

Bonneville 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 Bonneville'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.

Recent litigation highlights Bonneville's potential exposure to wildfire liability after being named as a defendant by several plaintiffs asserting claims related to 2020's Holiday Farm fire. 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, reflecting the low variable costs of hydroelectric and nuclear generation, limit affordability issues that could create social risks.

We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Inflation as measured by the Consumer Price Index has remained above 3% in recent months, and S&P Global Economics forecasts elevated interest rates persisting through the first half of 2024, with moderate softening through the remainder of the year. (See "U.S. Economic Forecast Update: A Sturdy Job Market Keeps Growth Going," published Feb. 21, 2024, on RatingsDirect.) In addition, Bureau of Labor Statistics data show that electricity price inflation continues to outpace the overall CPI. The amalgam of material increases in delinquent consumer, credit card, and auto loans, along with October's resumption of student loan payments and drawdowns of household savings garnered during the pandemic, will likely compound the financial pressures facing

electricity consumers.

Following stronger-than-expected U.S. economic growth through the fourth quarter of 2023, 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 are 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 the protracted ratemaking process for garnering stakeholder input diminishes management's ratemaking latitude. Customer resistance is manifest in management's reliance on biennial and triennial rate adjustments and barriers to the contemporaneous recovery in rates of unbudgeted costs incurred between rate proceedings. The lengthy periods between rate cases emphasizes the importance of balance sheet liquidity as a shock absorber. 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.

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 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 the large capital program's access to funds.

Downside scenario

The IIJA's upsize 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 revise downward the SACP and lower the rating if Bonneville faces adverse power market and hydrology conditions that erode coverage and liquidity metrics or a material adverse litigation judgment. 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 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 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 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 the almost \$5 billion of 2024-2028 capital spending needs at BPA and \$1.3 billion at ENW that BPA and its customers will support. In addition, we view BPA's financial performance as susceptible to hydrology conditions, market prices for the surplus power it sells, and management's use of 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 2023 fiscal year-end liquidity balance of \$2.0 billion was equivalent to more than seven months' operating expenses but was nearly \$200 million lower than in the previous year after providing 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 97.5% 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.
- 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.
- 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.

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 15, 2024)

Bonneville Pwr Admin columbia generating station elec rev and rfdg bnds ser 2022-A due 07/01/2041

Long Term Rating

AA-/Stable

Affirmed

Ratings Detail (As Of April 15, 2024) (cont.)

| | | |
|---|------------|----------|
| 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 |
| Energy Northwest, Washington | | |
| Bonneville Power Administration, Oregon | | |
| Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |
| 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 | | |
| <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 | | |

| Ratings Detail (As Of April 15, 2024) (cont.) | | |
|--|------------|----------|
| <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) 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 |
| Northern Wasco County Peoples Utility District, Oregon | | |
| 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 |
| Northwest Infrastructure Financing Corp., New York | | |
| Bonneville Power Administration, Oregon | | |
| Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANS | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating

Summary: Bonneville Power Administration, Oregon Energy Northwest, Washington; Wholesale Electric

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