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Summary:

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

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Long Term Rating AA-/Stable New

US\$92.62 mil proj 1 elec rev rfdg bnds ser 2022-A due 07/01/2041

Long Term Rating AA-/Stable New

US\$16.555 mil proj 3 elec rev rfdg bnds ser 2022-A due 07/01/2041

Long Term Rating AA-/Stable New

US\$1.84 mil columbia generating station elec rev rfdg bnds ser 2022-B due 07/01/2041

Long Term Rating AA-/Stable New

US\$0.53 mil proj 1 elec rev rfdg bnds ser 2022-B due 07/01/2041

Long Term Rating AA-/Stable New

Energy Northwest, Washington

Bonneville Pwr Admin, Oregon

Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)

Long Term Rating AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating to Energy Northwest (ENW), Wash.'s following series of proposed bonds:

- \$92.62 million Project 1 electric revenue refunding bonds, series 2022-A
- \$400.88 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2022-A
- \$16.555 million Project 3 electric revenue refunding bonds, series 2022-A
- \$530,000 Project 1 electric revenue refunding bonds, series 2022-B (taxable)
- \$1.84 million Columbia Generating Station electric revenue refunding bonds, series 2022-B (taxable)

The outlook is stable.

Bonneville Power Administration (BPA), Ore., will pay the bonds' debt service as operating expenses of its electric system.

At the same time, S&P Global Ratings affirmed its 'AA-' rating with a stable outlook on ENW's existing nuclear projects 1 and 3 as well as CGS' debt and additional nonfederal obligations, which BPA pays as an operating expense of its electric system.

ENW will use the bond proceeds to refund portions of its existing debt and for capital improvements.

Our SACP on BPA is 'a+', which reflects the utility's sizable capital needs, the inability of BPA to directly access capital markets, and debt service coverage (DSC) of total federal and nonfederal obligations of less than 1.0x in 2019-2020. Subsequently, in 2021 DSC of federal and nonfederal debt and the utility's liquidity strengthened because of favorable hydrology conditions that supported sales of surplus power that also benefited from market energy prices that were elevated relative to those in recent years.

Credit overview

The 'AA-' rating on the nonfederal debt that BPA supports, including the ENW debt, reflects Bonneville's contractual obligations to support the debt and the application of our government-related entity (GRE) criteria. We assess BPA's stand-alone credit profile to be '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. We base the latter on 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, which provides a one-notch uplift above the SACP.

A key rating factor remains Bonneville's legal authorization to pay nonfederal debt from net revenues before it services deferrable federal Treasury debt and appropriations.

Bonneville supports \$7.4 billion of nonfederal debt, which includes \$2.1 billion of lease obligations and the \$186 million balance remaining on 2013's \$340 million customer power prepayments.

As of fiscal year-end 2021, Bonneville reported \$7.2 billion of federal debt that includes \$1.6 billion of federal appropriations debt and \$5.6 billion of Treasury borrowing.

Bonneville's Treasury borrowings are subject to a congressionally imposed borrowing limit. Prior to November 2021's enactment of the Infrastructure Investment and Jobs Act (IIJA), BPA faced a \$7.7 billion borrowing limit that Congress established in 2009. The IIJA increased the borrowing limit to \$13.7 billion until 2028 and to \$17.7 billion beyond 2028. The upsizing of the utility's borrowing authority is significant because BPA projects \$5 billion of capital spending needs through 2026, which could have exhausted its Treasury borrowing capacity if Congress had not acted. Therefore, the IIJA's creation of additional borrowing capacity removes downward pressure on our SACP on Bonneville.

Debt issued by ENW for its three nuclear projects represents almost 70% of the \$7.4 billion of nonfederal debt that BPA services. CGS is ENW's only completed and operating nuclear unit. ENW halted construction on units 1 and 3. BPA purchases CGS' output for resale to its customers. The incomplete nuclear units 1 and 3 reported \$1.7 billion of debt as of Sept. 30, 2021. Units 1 and 3 debt balances remain virtually unchanged in recent years due to reamortizations that extend the maturities to create cash flow to support capital projects and facilitate accelerated retirement of more expensive federal appropriations debt by deferring portions of debt service. Bonneville labels its use of ENW debt extensions "regional cooperation debt refinancings." CGS debt increased modestly to \$3.2 billion by 2021, reflecting capital investments in this nuclear unit.

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 IJA created.

Environmental, social, and governance

Because Bonneville Tier 1 electric sales are almost exclusively from a combination of the federal hydroelectric projects and ENW's nuclear facility, the utility has a very low carbon footprint, limiting, but not eliminating environmental risks. Bonneville and its ratepayers face considerable and seemingly perpetual costs of remediating fish and wildlife habitats surrounding its hydroelectric facilities, along with the costs of related litigation and regulatory proceedings. Bonneville also faces the 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.

Protracted rate proceedings manifest customers' resistance to rate increases. Tempering this exposure is our view that the utility's favorable wholesale rates limit affordability issues that could create social risks.

We view regional resistance to rate adjustments as presenting governance risks. This resistance is manifest in management's reliance on biennial rate adjustments and the high threshold for the contemporaneous recovery in rates of unbudgeted costs incurred between rate proceedings.

Stable Outlook

Upside scenario

We do not expect to revise up the SACP in the next two years because of the utility's sizable capital program that will add federal and nonfederal debt, our view that nonfederal DSC could weaken as the utility addresses deferred ENW debt amortization, and the susceptibility of all-in DSC and the utility's liquidity cushion to hydrology conditions and the market prices BPA earns from surplus energy sales.

Downside scenario

The IJA's upsizing of BPA's Treasury borrowing capacity reduces the risk of our revising down the SACP and rating for lack of access to capital as its capital program proceeds. Nevertheless, we could revise down the SACP and rating if BPA faces adverse power market and hydrology conditions that erode all-in federal and nonfederal DSC and liquidity.

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 14 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 five-year capital spending needs at BPA and \$600 million at ENW that BPA will support. In addition, we view BPA's financial performance as susceptible to hydrology conditions and market prices for the surplus power it sells.

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 of at least 3.0x since 2019 reflects the uplift that deferred ENW debt amortization and operating expenses provide. However, accrual coverage of combined federal and nonfederal obligations was 0.9x in 2019 and 0.8x in 2020, but increased to 1.3x in 2021 on favorable hydrology conditions and market prices for surplus power sales.
- Unrestricted cash and investments increased to \$1.2 billion at Sept. 30, 2021, from \$847 million at Sept. 30, 2020, reflecting favorable surplus sales activity. The liquidity balances were equivalent to six months' operating expenses. We consider maintaining a sound liquidity cushion to be an important hedge against variable hydrology conditions and the credit risks inherent in biennial rate cases, the high threshold for intra-period rate adjustments, and volatile surplus power sales revenues and volumes.
- Bonneville's 2018-2023 strategic plan assumes rate setting that will support a 97.5% probability of meeting all federal and nonfederal obligations.
- Highly politicized and protracted biennial rate proceedings could delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility.
- Tiered rates underlying the 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. At the same time, the rate-setting construct exposes BPA to the costs of augmenting its hydroelectric resources with market purchases to fulfill customers' allotted energy needs during low water conditions. The potential short position exposure could saddle BPA with costs that erode liquidity because, except in extreme circumstances, BPA is unable to adjust rates between rate cases except in extreme circumstances.

Management reports it is focusing on enhancing competitiveness and demand for the utility's output to preserve its customer base before its 2012-2028 preference customer contracts expire.

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 May 2, 2022)

Bonneville Pwr Admin columbia generating sta elec rev and rfdg bnds

Long Term Rating

AA-/Stable

Affirmed

Ratings Detail (As Of May 2, 2022) (cont.)

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		
<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 Pwr Admin, 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		
<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		

Ratings Detail (As Of May 2, 2022) (cont.)		
Long Term Rating	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		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2018-C due 07/01/2028		
Long Term Rating	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		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj #1)		
Long Term Rating	AA-/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist, Oregon		
Bonneville Pwr Admin, Oregon		
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) rev rfdg bnds (Mcrary Dam Fishway Hydroelec Proj)		
Long Term Rating	AA-/Stable	Affirmed
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRAns		
Long Term Rating	AA-/Stable	Affirmed

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