MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Bonneville Power Administration's (OR) Aa2 issuer rating; outlook is revised to positive from stable

01 Apr 2022

Approximately $6.8 billion of debt affected

New York, April 01, 2022 -- Moody's Investors Service has affirmed Bonneville Power Administration's (OR) (BPA) Aa2 issuer rating and also affirmed the Aa2 rating assigned to BPA supported debt obligations. The BPA supported debt obligations consist of Morrow (Port of) OR's (POM) transmission facilities revenue bonds, Idaho Energy Resources Authority's transmission facilities revenue bonds, Northwest Infrastructure Financing Corporation, OR's transmission facilities lease revenue bonds, Lewis County Public Utility District 1, WA's Cowlitz Falls hydroelectric project revenue refunding bonds, Energy Northwest, WA - Project 1's (Project 1) electric revenue refunding bonds, Energy Northwest, WA - Project 3's (Project 3) electric revenue refunding bonds, and Energy Northwest, WA - Project 2 (Columbia Generation Station)'s (CGS) electric revenue and refunding(OR) bonds. The rating outlooks for BPA, Project 1, Project 3, and CGS have been revised to positive from stable.

RATINGS RATIONALE

Today's rating action reflects the substantial increase to the borrowing line between BPA and the US Treasury that provides long term capital funding certainty and more closely ties BPA to the Government of the United States of America (Aaa, stable). Under the Infrastructure Investment and Jobs Act of 2021, BPA received an aggregate $10 billion increase to its borrowing authority with the US Treasury on top of its existing $7.7 billion borrowing line leading to a gross borrowing line of $17.7 billion ($5.63 billion outstanding as of FY21) after FY2027 (Sept 30). Effectively, the $10 billion increase is allocated over time with the first $6 billion available through FY2027 and the full $10 billion thereafter. Since BPA cannot issue direct external debt, the borrowing line serves as a core source of long-term capital for BPA to fund ongoing capital spending for both its power and transmission systems. The $750 million sublimit within the borrowing line that is available for operating expenses has not changed. Moody's cites governance as a key driver of this rating action as part of our environmental, social and governance (ESG) considerations owing to the credit positive action taken by the US government which supports BPA's ability to fund its long-term capital projects.

To a lesser extent, the positive outlook also acknowledges BPA's improved financial performance over the last two years with rising reserves for risk. Since reaching a low of $484 million in FY2019, BPA's reserves for risk have improved to $825 million as of FY2021. Given robust wholesale power prices relative to prices assumed in BPA's rate case and near average hydro conditions, BPA expects strong financial performance in FY2022 with reserves for risk increasing to $1.1 billion, which would be at its highest level in the last 13 years. Under average hydro conditions, BPA is a major seller of power at market rates in addition to its long term contracted sales at tariffs set under its rate case.

By the end of FY2022, BPA is required to submit an updated financial plan under the law that authorized the borrowing line increase and we will assess how the increased borrowing authority will affect BPA's strategic goals, capital spending plans, and financial policies. Since 2018, BPA has implemented policies that sought to improve or stabilize BPA's standalone credit strength. Such policies and goals include but are not limited to the establishment of a financial reserve policy, a long-term goal to reduce BPA's debt to asset ratio to around the 60% to 70% range, and partial rate funding of capital expenditures. We see these goals and policies as an important foundation to the turnaround of BPA's financial performance since 2019 and a material weakening of these credit support features could offset the benefits of the borrowing line increase.

The affirmation of BPA's Aa2 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. 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 support features from the US government. The credit profile also acknowledges continuing credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and historically low consolidated financial metrics for the rating.

Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance. The Aa2 rating on BPA supported obligations like its lease financings and Energy Northwest's Project 1, Project 3, and Columbia Generating Station (CGS) revenue bonds considers BPA's contractual obligation to pay including debt service, BPA's long history of meeting its contractual obligations, and BPA's Aa2 issuer rating.

RATING OUTLOOK

BPA's positive outlook considers BPA's increased borrowing authority under the US treasury and expectations for better than expected financial performance in FY2022. The outlook on Project 1, Project 3, and CGS reflects the positive outlook on BPA.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- BPA's rating is likely to be upgraded if BPA maintains or expands its credit supportive goals and policies under its new financial plan, while having access to the larger borrowing line.

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Given the positive outlook, a downgrade is not likely. However, BPA's outlook could be revised to stable if BPA materially diminishes its credit supportive policies and goals.

- The outlook associated with BPA's supported bonds could be revised to stable if BPA's outlook is revised to stable. The ratings on BPA supported bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

LEGAL SECURITY

Since BPA is not allowed to issue direct external debt, BPA's $14.6 billion of debt obligations consists of $7.4 billion of non-federal debt created via operating contracts and $7.2 billion of federal debt, which is debt owed by BPA to the federal government. BPA's rated, non-federal debt such as Project 1, Project 3 and CGS's debts are supported by contracts that ultimately require BPA to pay on an unconditional basis.

Since these obligations are treated as an operational expense of BPA, they have a priority over BPA's direct debt obligation to the US Treasury and BPA can defer payments to US Treasury, if necessary.

PROFILE

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies 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 Methodology published in August 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . An additional methodology used in the Energy Northwest ratings was US Municipal Joint Action Agencies Methodology published in August 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1207102. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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