

FITCH RATES PORT OF MORROW, OR TRANSMISSION REV BONDS 'AA'; AFFIRMS BONNEVILLE POWER ADMIN AT 'AA-'

Fitch Ratings-Austin-12 June 2019: Fitch Ratings has assigned an 'AA' rating to the following revenue refunding bonds issued by the Port of Morrow, Oregon and secured by lease payments from the Bonneville Power Administration (Bonneville):

--Approximately \$100 million Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 6), series 2019.

Fitch has also affirmed the 'AA' debt ratings on the following non-federal debt, which are secured on parity through payments from Bonneville:

- \$795.6 million ENW Project 1 revenue bonds;
- \$3.5 billion ENW Columbia Generating Station revenue bonds;
- \$914.1 million ENW Project 3 revenue bonds;
- \$200.7 million Idaho Energy Resources Authority transmission facilities revenue bonds, series 2017;
- \$811.6 million Port of Morrow transmission facilities revenue bonds, series 2012, 2014, 2015 and 2016-1& 2016-2;
- \$72.1 million Lewis County Public Utility District No. 1 Cowlitz Falls hydroelectric project revenue refunding bonds, series 2013.

In addition, Fitch affirms the 'AA-' Issuer Default Rating (IDR) that reflects Bonneville's payment obligations on both non-federal debt and federal debt.

The ratings on the non-federal debt listed above and issued by Energy Northwest, Idaho Energy Resources Authority, Port of Morrow and Lewis County PUD No. 1, reflect Bonneville's unconditional obligation to pay debt service, as well as structural security features specific to the priority of these obligations ahead of Bonneville's federal debt (approximately \$5.5 billion Treasury debt and \$1.8 billion federal appropriations debt as of Sept. 30, 2018).

The Rating Outlook on all ratings is Stable.

The 2019 bonds are scheduled to price on June 25, 2019, via negotiation. Bond proceeds will refinance an existing bank loan used to finance transmission assets and pay costs of issuance.

ANALYTICAL CONCLUSION

The 'AA' rating on the Port of Morrow bonds and Bonneville's parity obligations on all other non-federal debt reflects Bonneville's absolute and unconditional obligation to make required lease and other debt service payments.

The 'AA-' IDR on Bonneville is based on its very strong revenue defensibility and low operating cost support the utility's highly leveraged position, albeit with a weaker liquidity profile. The rating incorporates steps taken by Bonneville and its customers since 2017 to implement a financial reserves policy and include specific steps within the rate setting process designed to build liquidity and maintain minimum reserves specific to each of the power and transmission business lines. While the initial funding timeline selected (estimated 10 years) to reach the minimum 60 day reserve minimum threshold is considered slow by Fitch, the proposed reallocation of reserves

between the two business lines in fiscal 2019 is expected to bring the power business line relatively near the 60 day minimum while the transmission business line should remain above the minimum.

The 'AA' ratings on the non-federal debt obligations, as distinct from Bonneville's 'AA-' IDR, reflect Bonneville's obligation to make those payments ahead of its federal debt, and the structural ability to defer federal debt repayments and interest due in the event revenues are insufficient after meeting Bonneville's other obligations, including the non-federal debt.

CREDIT PROFILE

The Port of Morrow (the port) is a port district located in Morrow County, Oregon. The port has the legal authority to own and issue bonds to fund transmission assets throughout the region. This right was validated by a court opinion sought by the Port in March 2012, prior to the first lease transaction executed with Bonneville. According to the terms of its lease agreements between the Port of Morrow and Bonneville, Bonneville makes unconditional lease payments directly to the trustee (the port has assigned the lease revenues to the trustee) that are equal to debt service on six series of outstanding bonds, including the series 2019 bonds. Bonneville retains operational control of the transmission assets.

Bonneville provides wholesale power to a population of more than 14 million in the Pacific Northwest through a resource portfolio consisting of low-cost hydropower and nuclear generation. Transmission services are provided to a similar six-state region but to a broader cast of utilities. Bonneville is the largest of four federal power marketing administrations (PMAs) within the U.S. Department of Energy (DOE). Power supply needs are met through a fleet of hydroelectric projects and one nuclear project. Bonneville's predominantly hydroelectric generation portfolio (86% of total owned capacity) results in hydrology risk and a variable energy supply. Low market energy prices in the region are placing competitive pressure on Bonneville to keep rate increases as low as possible and have driven net secondary revenues lower over the past decade.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'; Geographic and Operational Revenue Diversity

Bonneville's revenue defensibility is very strong. Power sales contracts with 125 customers and Bonneville's dominant role as the regional transmission provider result in long-term revenue security, notwithstanding some degree of renewal risk related to the power supply contracts. Bonneville establishes its own rates, subject to FERC review, and has adopted a consistent two year rate making process. Finally, the purchaser credit quality of Bonneville's wholesale customers is strong. The largest customers exhibit favorable service area characteristics and very strong financial profiles.

Operating Risk: 'aa'; Hydroelectric Dominant Power Supply

Operating costs are very low, largely due to a predominantly hydroelectric generation fleet. Capital needs relate to reinvestment in the aging generation assets and transmission investment across the six state service area.

Financial Profile: 'aa'; Highly Leveraged; Declining Power Reserves but Adequate Total Liquidity

Bonneville's financial profile is very strong although highly leveraged. Given planned capital spending and debt issuance, Fitch expects leverage to decline slightly over the next five years, further supporting the ratings. Variability is likely in the short term as a result of variable hydroelectric sales but is considered in the rating. Liquidity is adequate with the proposed reallocation of reserves and implementation of a financial reserves policy.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations affected the rating.

RATING SENSITIVITIES

Higher Leverage: Bonneville's overall leverage is near the upper end of the 'aa' range given its revenue defensibility and operating risk profile assessments. Financial projections indicate that overall leverage should remain flat or trend down slightly. However, sustained leverage that is higher than anticipated could result in downward rating pressure.

Weakened Revenue Defensibility: A potential dilution of revenue defensibility over the medium term, driven by reductions in Bonneville's power customer base during the contract renewal process, could also reduce Bonneville's ability to support existing leverage levels at the current rating.

SECURITY

Bonneville's lease payments to Port of Morrow for debt service on the 2019 bonds are absolute and unconditional and are made as an operating expense from the Bonneville Fund. The payments will be made in accordance with a Lease Purchase Agreement signed in 2019. All of Bonneville's revenues are required to be deposited in the Bonneville Fund, which is a separate fund within the U.S. Treasury. Expenditures from the Bonneville Fund do not require further federal appropriation. The nonfederal debt obligations are consolidated as obligations on Bonneville's financial statements and are paid prior to Bonneville's payments on its borrowings from the U.S. Treasury and federal appropriations debt.

BONNEVILLE POWER ADMINISTRATION

For more information about Bonneville Power Administration see Fitch report, 'Energy Northwest, WA and Bonneville Power Administration, OR', dated May 9, 2019.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 28 May 2019)

<https://www.fitchratings.com/site/re/10064680>

U.S. Public Power Rating Criteria (pub. 03 Apr 2019)

<https://www.fitchratings.com/site/re/10066654>

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