MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Morrow (Port of) OR Transmission Revenue Bonds; Outlook is negative

11 Jun 2019

Approximately $98 million of debt affected

New York, June 11, 2019 -- Moody's Investors Service assigned a Aa1 rating to Morrow (Port of) OR's (POM) $98 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 6), Series 2019 (Federally Taxable). The rating outlook for Bonneville Power Administration (OR)'s (BPA) is negative.

RATINGS RATIONALE

The Aa1 rating on POM's transmission lease bonds reflects BPA's unconditional lease payment obligation directly to the bond trustee, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating. POM's role is solely as a conduit issuer.

BPA's Aa1 rating recognizes several credit supportive considerations including 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 stable). The Aa1 rating also acknowledges continuing credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and consolidated financial metrics that continue to range in the 'Ba' to 'Baa' rating category as outlined under the Moody's US Public Power Electric Utilities with Generation Ownership Exposure methodology. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance and historically has contributed to significant declines to BPA's internal liquidity.

BPA's negative outlook reflects the steady erosion of BPA's internal and external liquidity since 2015, which we expect will continue through the new FY2020-2021 rate period, and BPA's intent to further extend the Energy Northwest nuclear debt beyond the scope of the current "Regional Cooperation" program. Over the last three years, BPA's liquidity has steadily declined to 89 days cash on hand at FY2018 compared to an average of 135 days cash on hand from FY2013-FY2015. Looking forward, we expect continued deterioration of this metric trending towards BPA's minimum objective of 60 days cash on hand although the extent and timing of the decline will likely be affected by wholesale market prices and hydrology conditions. We further note that BPA's availability under its US Treasury line has declined by over $1 billion since 2015 on an adjusted net basis (netting out deferred borrowing) and BPA's FY2020-2021 proposed rates incorporate further availability declines possibly below the $1.5 billion quantitative threshold previously outlined in past research for consideration of a downward rating action.

The negative outlook also factors in the continued extension of non-federal debt in exchange for the accelerated payment of debt owed to the federal government that effectively undermines the defacto subordination of federal debt to non-federal debt. Since 2013, BPA has accelerated the repayment of a net $2.5 billion of subordinated, federal appropriations debt while extending maturing debt on the ENW's nuclear projects. On the look forward basis, we expect BPA will continue to extend the ENW debt as part of a broader plan to prevent an even greater depletion of the US Treasury line availability than currently expected.

During the next 12 to 18 months, we will assess any possible revisions to BPA's proposed FY2020-2021 rates or its long term strategic plans that could address the liquidity concerns raised above. Factors that will influence our views include BPA's financial performance as well as BPA's approach to managing internal and external liquidity levels.

While the negative outlook factors in the expected deterioration in certain of BPA's credit characteristics, BPA still benefits from several credit supportive factors. In addition to some of intrinsic strengths afforded to BPA by its competitively positioned asset mix, a key rating consideration remains the explicit and implicit level of support from the US government. Explicit US Government support features include borrowing authority with the US Treasury ($2.17 billion gross / $1.83 billion net available as of September 30, 2018) and the legal ability to defer its annual US Treasury debt repayment if necessary. BPA's importance to the US Northwest region and its role as a US government agency represent drivers of implicit support.

RATING OUTLOOK

BPA's negative outlook considers the agency's declining liquidity profile and a continuation of Energy Northwest's debt extension incorporated in BPA's upcoming FY2020-2021 rate period.

FACTORS THAT COULD LEAD TO AN UPGRADE

- In light of the negative outlook at BPA, limited prospects exist for the rating to be upgraded.

- The outlook on BPA and the BPA supported bonds including the CGS, Project 1, and Project 3 bonds could be revised to stable if BPA's outlook becomes to stable.

- BPA's rating could improve over the long term if BPA is able to substantially mitigate hydrology and wholesale price risk and if BPA implements policies to ensure robust liquidity including at least 250 days cash on hand on a sustainable basis.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- BPA's ratings could be lowered if the US government's credit rating is downgraded, if we expect internal liquidity to fall below 60 days, if the availability under the US Treasury line declines below $1.5 billion on a sustained basis, or if BPA experiences regulatory delays in receiving full recovery of costs. Other factors that could lead to a downgrade include any sign of waning federal government support or a decline in the proportion of subordinated, deferrable debt owed to the US Treasury.

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

LEGAL SECURITY

Bond security is the pledge of the lease agreement between POM and BPA to lease certain transmission lines and related equipment. BPA's obligation to make lease payments is absolute and unconditional and is payable without any set-off or counterclaim, regardless of whether or not the project is operating or operable. The lease is co-terminus with the bonds and the lease payments have been structured to match debt service payments including the lease bond's bullet maturities ranging from 2024 through 2026. The bond trustee has the right to receive all lease payments and BPA will directly make the lease payments to the bond trustee. There is no

debt service reserve.

USE OF PROCEEDS

Proceeds from the offering will be used to refinance a bank loan that funded the construction of electric transmission infrastructure.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Clifford Kim
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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