MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Energy Northwest (WA) Columbia Generating Station Revenue Bonds; affirms BPA and its supported debt obligations at Aa1; outlook revised to negative from stable

29 Apr 2019

Approximately $6.4 billion of rated debt affected

New York, April 29, 2019 -- Moody's Investors Service ("Moody's") today assigned a Aa1 rating to Energy Northwest, WA's (ENW) $256 million Columbia Generating Station (CGS) Electric Revenue and Refunding Bonds, Series 2019-A and $18 million of Columbia Generating Station Electric Revenue Refunding Bonds, Series 2019-B (Taxable). Concurrent with this rating assignment, Moody's affirmed Bonneville Power Administration, OR's (BPA) Issuer Rating at Aa1 along with all BPA supported debt obligations at Aa1, including debt at Energy Northwest, WA - Project 1 (Project 1), Energy Northwest, WA - Project 3 (Project 3), and Energy NW, WA-Proj 2 (Columbia Gen. Sta). Additionally, Moody's changed the outlook for BPA and for all BPA supported obligations to negative from stable.

RATINGS RATIONALE

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.

The Aa1 rating affirmation at ENW's CGS, Project 1, and Project 3 revenue bonds considers BPA's contractual obligation to pay including debt service under the project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating.

The change in BPA 's rating outlook to negative from stable 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

The negative outlook on CGS, Project 1, and Project 3 reflects BPA's negative 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 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.

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.

LEGAL SECURITY

CGS, Project 1, and Project 3 bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. There are no debt service reserves. The net billing agreement obligates the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project.

In 2006, ENW and BPA adopted a new direct pay agreement whereby ENW participants directly pay all costs to BPA rather than through ENW. BPA has made a clear and tested commitment to pay under the net billing agreement through more than more than 30 years of stressful circumstances including legal challenges in the early 1980s.

USE OF PROCEEDS

Proceeds from the offering will be used for capital spending at CGS, to pay transaction costs, and extend maturing debt at CGS as part of BPA's regional cooperation debt program.

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 federally owned generation and electric transmission assets in the Pacific Northwest spanning all or parts of eight states. The Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. Many of the statutory authorities of BPA are vested with the Secretary of Energy, who appoints and acts through the BPA administrator. 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.

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METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. The additional methodology used in these ratings was US Municipal Joint Action Agencies published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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

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