MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades BPA (OR) to Aa2 from Aa1; assigns Aa2 rating to Morrow (Port of) OR's Transmission Revenue Bonds; Outlook is stable

12 Feb 2020

Approximately $6.4 billion of debt affected

New York, February 12, 2020 -- Moody's Investors Service ("Moody's") downgraded Bonneville Power Administration's (BPA) issuer rating to Aa2 from Aa1 and consequently downgraded BPA supported debt obligations to Aa2 from Aa1. The BPA supported debt obligations downgraded to Aa2 consist of Morrow (Port of) OR's (POM) transmission facilities lease revenue bonds, Idaho Energy Resources Authority's transmission facilities lease 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 bonds, Energy Northwest, WA - Project 1's electric revenue bonds, Energy Northwest, WA - Project 3's electric revenue bonds, and Energy Northwest, WA - Project 2 (Columbia Generation Station)'s electric revenue bonds.

Separately, we also assigned a Aa2 to POM's $190 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 7), Series 2020-1 (Federally Taxable). The rating outlook for Bonneville Power Administration (OR)'s (BPA) and for each of the BPA supported debt obligations has been revised to stable from negative.

RATINGS RATIONALE

The downgrade of BPA's rating to Aa2 from Aa1 reflects the steady erosion of BPA's internal and external liquidity since 2015 and expectation of continued declines. Over the last four years, BPA's reserves for risk has steadily declined to 73 days cash on hand at FY2019 which is less than half of the 152 days cash on hand at the end of FY2015. Looking forward, we expect continued deterioration of this metric trending to around BPA's minimum objective of 60 days cash on hand given BPA's plans to use a net $51 million of its reserves for risk over the FY2020-2021 rate period. The low forecasted reserves for risk results in a high probability that BPA will breach its 60 days cash on hand target in an adverse situation such as below average hydrology. The downgrade further considers depletion of BPA's net availability under its US Treasury line on an adjusted basis (netting out deferred borrowing) to $1.84 billion available at the end of FY2019 compared to $3.34 billion at FY 2014 and BPA's forecast that net availability is likely to decline below the $1.5 billion quantitative threshold previously outlined in past research for consideration of a downward rating action. Diminished net availability under the US Treasury line weakens a key US government support feature, reduces BPA's access to capital and lowers overall financial resiliency.

The downgrade also factors in BPA's 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 $2.7 billion of higher-cost subordinated, federal appropriations debt while extending maturing debt on the Energy Northwest's (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 lessen the depletion of the US Treasury line availability.

The downgrade of BPA supported debt obligations to Aa2 from Aa1 reflects the downgrade of BPA's issuer rating to Aa2 and BPA's payment obligations under a long-term contract such as a lease, net billing or power purchase agreement that serves as the primary source of cash flow for the applicable bonds.

Supporting BPA's Aa2 rating are 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). 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 Aa2 rating also acknowledges continuing credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and low consolidated financial metrics.

The Aa2 rating assignment on POM's transmission facilities lease revenue 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 Aa2 issuer rating. POM's role is solely as a conduit issuer.

RATING OUTLOOK

BPA's stable outlook considers the agency's FY2020-2021 final rates, expectations of US Treasury line net availability remaining between $1.3 to $1.5 billion on an adjusted basis through at least FY2021, and reserves for risk declining closer to 60 days cash on hand. The stable outlook on BPA supported bonds reflect the stable outlook on BPA and BPA's long history of honoring its contractual obligations.

FACTORS THAT COULD LEAD TO AN UPGRADE

- BPA's rating could improve if BPA is able to maintain reserves for risk at above 90 days cash on hand and availability under the US Treasury line that materially exceeds $1.75 billion on a sustained basis.

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

FACTORS THAT COULD LEAD TO A DOWNGRADE

- BPA's ratings could be lowered if we expect reserves for risk falls below 45 days cash on hand, if the adjusted availability under the US Treasury line declines significantly below $1.25 billion on a sustained basis or if BPA experiences 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 material 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

POM's transmission facilities lease revenue bonds benefit from the pledge of a bond specific 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 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. 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 bank loans that funded the construction of electric transmission infrastructure and pay transaction costs.

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. An additional methodology used in the ratings for Energy Northwest, WA - Project 1's electric revenue bonds, Energy Northwest, WA - Project 3's electric revenue bonds, and Energy Northwest, WA - Project 2 (Columbia Generation Station)'s electric revenue bonds was the US Municipal Joint Action Agencies Methodology published in August 2019. 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, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

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