MOODY'S
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Rating Action: Moody's assigns Aa2 rating to Morrow (Port of) OR's 2020 Transmission Revenue Bonds; Outlook is stable

03 Jun 2020

Approximately $380 million of debt affected

New York, June 03, 2020 -- Moody's Investors Service ("Moody's") assigned a Aa2 rating to Morrow (Port of) OR's (POM) $380 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 7) Series 2020-1 (Federally Taxable). The rating outlook is stable.

RATINGS RATIONALE

The Aa2 rating assignment on POM's transmission lease bonds reflects Bonneville Power Administration's (BPA) 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.

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 (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 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. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

Recently, social distancing measures to confront the coronavirus have resulted in a manageable impact on BPA. Specifically, BPA reports that it continued to generate, transmit and sell power to its customers although we expect lower electricity demand in the region for at least calendar year 2020. While lower electricity demand will reduce BPA's power and transmission revenues, BPA's also expects operating and capital spending reductions and deferrals. The latest estimate from BPA indicates the overall impact would be moderate with its reserves for risk dropping to $455 million from $484 million at the end of FY2019 under a scenario where electricity demand is lower. Furthermore, BPA announced on May 29, 2020 that it has taken actions to support its customers in the region that includes providing extended payment terms on a case-by-case basis and filing an expediated rate case with the Federal Energy Regulatory Commission to suspend its reserves surcharge for the remainder of FY2020 and all of FY2021. For FY2021, the reserves surcharge is estimated at $30 million while for FY2020, the surcharge suspension is estimated at $9 million if FERC approval is obtained in June 2020. While the expected reserve surcharge suspension is credit negative, its overall impact to BPA's credit quality should be manageable especially since BPA has implemented the previously mentioned operating and capital spending controls and deferrals.

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 over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- The rating on the transmission lease bonds could be upgraded if BPA is upgraded.

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- The rating on the transmission lease bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

- 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.

LEGAL SECURITY

POM's transmission lease 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. We understand POM's Series 2020-1 bonds will mirror the terms and payment structure of the previous transmission lease bonds.

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.

METHODOLOGY

The principal methodology used in this rating 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 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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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