Public Power
North America
New Issue

Bonneville Power Administration/ Energy Northwest

Ratings

New Issues

$667,275,000 Project 1 Columbia Generating Station & Project 3 Electric Revenue Refunding Bonds & Electric Revenue Bonds	AA–

Outstanding Debt

$1.938 Billion Project 1 Bonds	
$2.327 Billion Columbia Generating Station Bonds	
$1.909 Billion Project 3 Bonds	AA–

Rating Outlook

Positive

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Key Utility Statistics

(Fiscal Year Ended 6/30/07)

System Type	Wholesale
No. of Members	20
Annual Revenues ($000)	3,268,640
Primary Fuel Source	Hydro
Peak Demand (MW)	22,780
Energy Growth (%)	3
Debt Service Coverage (x)	4.92
Days Operating Cash	287
Equity/Capitalization (%)	15

Related Research

- *New Issue, Chelan County Public Utility District No. 1 (WA), dated March 5, 2008.*
- *Special Report, "U.S. Public Power Peer Study," dated June 21, 2007.*

Rating Rationale

- Bonneville Power Administration's (BPA) position as a leading provider of electricity and transmission in the Pacific Northwest and its highly competitive wholesale power rates provide solid support for the rating and the Positive Rating Outlook. BPA continues to work to put in place more certain contractual and pricing arrangements with its diverse customer base, which could allow for an upgrade in the Energy Northwest (ENW) rating to 'AA' from 'AA–' in the near term.
- Financial results have improved in recent years, helped by reasonable hydro conditions. Going forward, financial results should benefit from BPA's renewed focus on meeting its customer power requirements from existing, lower-cost hydro and nuclear-dedicated generating resources, while working to firm up longer-term power sales agreements with its major customers, which should add to rate stability.
- Credit concerns include the risk inherent in a hydro-based system where available energy and wholesale costs are dependent upon weather conditions (precipitation and water flow), and ongoing capital expenditures related to fish management issues.
- Fitch also recognizes that despite the accelerated pay-down of current obligations to the U.S. Treasury, BPA is expected to reach its borrowing cap (established by Congress) in the next 9–10 years. Over the long term, an essential component of BPA's credit will be its continued ability to fund the increasing capital needs for transmission, conservation, renewable resources and to maintain the existing system.

What Could Trigger an Upgrade?

- Greater clarity of terms of new BPA power sales contracts beyond 2011, which should provide additional credit strength.
- If hydro conditions in the Pacific Northwest continue to meet load requirements and support surplus sales.
- If wholesale market prices (surplus sales) continue to be strong.
- Continued ability to find ways to maintain ability to access capital (debt/lease).
- Ability to successfully resolve residential customer exchange program litigation relating to regional investor-owned utilities (IOUs), and sustain a strong financial position.

Credit Summary

BPA acts as marketing agent for power from all of the federally owned hydroelectric projects in the Pacific Northwest. BPA also has acquired on a long-term basis and markets power from several non-federally-owned and operated projects, including ENW's Columbia Generating Station (CGS), a 1,157 megawatt (MW) operating nuclear plant. ENW has 20 members, consisting of 17 public utility districts and the cities of Richland, Seattle and Tacoma, Wash. ENW also owns and operates other projects that are separately secured and not related to BPA, including the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project (rated 'A–' with a Positive Outlook).

BPA utilizes the energy from CGS as part of its overall power supply portfolio (about 10% of capacity) and is obligated to pay debt service on the Energy Northwest CGS-related bonds. BPA is the largest of the regional federal power marketing agencies within the Department of Energy (DOE). BPA was created by Congress in 1937 to market electric power from the Bonneville Dam. Congress has since designated BPA to market power from all of the federally owned hydro projects (31) in the Pacific Northwest. BPA sells electric power sold in a 300,000 square-mile service area and accounts for approximately 35% of the electric power consumed in the region.

New Issue Details

Energy Northwest plans to issue approximately $667,275,000 of various electric revenue refunding bonds to refund several series of outstanding project and other related debt, with a portion of bonds proceeds also used to finance certain capital improvements to the CGS.

Management / Governance

BPA's authority is vested in the Secretary of Energy, who appoints and acts through the Bonneville Power Administrator (currently Steven Wright). Rates must be approved by the Federal Energy Regulatory Commission (FERC).

Power Contracts

The Northwest Power Act (1980) requires BPA to meet certain firm loads in the Pacific Northwest of various preference customers and regional IOUs. BPA does not have an obligation to meet all firm loads within the region or enter into contracts to sell any power to a DSI. BPA sells preference customers four basic power products:

- Block sales, under which BPA provides five-year fixed blocks of power at agreed times on a take-or pay basis.
- Slice of the system, which is a form or requirements service in which BPA sells a proportion of federal system output, both firm power and seasonal surplus energy, in return for a promise of the customer to pay a correlative proportion of the cost of the federal system.
- Partial-requirement sales.
- Full-requirement sales.

Under these agreements, BPA is obligated to provide approximately 7,400–7640 average MW to meet preference customer loads through fiscal year 2011. Of this amount, approximately 1,600 average MW is sold as slice-of-the-system products, approximately 2,200 average MW is in the form of block sales, and the remainder (3,400 MW) is in the form of full or partial requirement products. BPA is proposing to execute contracts with its customers in December 2008 for service from FY 2012 through FY 2028.

Power Supply

To meet its statutory obligations, BPA relies on various generation resources and power purchases (along with its extensive transmission system). These resources are referred to as the federal system and include federal investments in regional hydro projects. These projects were constructed and are operated by the Army Corp of Engineers or the Department of Reclamation.

BPA also receives electricity from Energy Northwest's Columbia Generation Station, which is budgeted to produce power at about $27.85 per megawatt hour (MWh) for

FY 2008. The cost for FY 2007 was $36.90 per MWh, which included a refueling outage. Efforts are continuing to relicense the Columbia Generating Station by 20 years, from 2023 to 2043. The final application is scheduled to be submitted by Dec. 31, 2009.

BPA's resource planning focuses on the need to develop sufficient firm energy resources to meet firm energy loads. The issue is that the amount of energy that the federal system can produce varies on a number of conditions. (weather, rain, storage conditions, fish conservation, etc.). BPA uses a "critical water" assumption to make its firm and surplus energy planning. For 2008, BPA estimates that it would generate an annual surplus of 1,500 MW. If it were "wet" water conditions (high water flows), the amount of surplus could be 2,500 MW. In addition, peaking capacity of the federal system is greater than its peaking loads and power reserve requirements in most water years. Over the next 10 years, its peaking capacity will exceed requirements in most months.

BPA strives to be generally in balance with net requirements of utilities and availability of firm federal power (under average water conditions) with a level of 7,100 MW. BPA expects that its customer loads will range between 7,130 and 7,340 annual average MW through FY 2011, with aggregate loads of almost 8,470 MW in FY 2008. As a result, a small deficit is expected in the next few years.

Transmission

The federal transmission system is composed of approximately 15,000 circuit miles of high-voltage transmission lines and more than 300 substations that are located in Washington, Oregon, Idaho and parts of Montana, Wyoming and northern California. A southern inter-tie consists of three high-voltage alternating current (AC) transmission lines and one direct current (DC) transmission line that interconnect the electric systems of the Pacific Northwest and Pacific Southwest. The rated transfer capability of the southern inter-tie AC in the north-to-south direction is 4,800 MW of capacity, and in the south-to-north direction is 3,675 MW. The rated transfer capability of the DC line in both directions is 3,100 MW.

Rates

BPA's rates are subject to extensive review by outside parties, which differentiates BPA's credit from most other municipal wholesale utilities (which are self regulated). Rates proposed by BPA are reviewed by FERC. After FERC approval, rates may be reviewed by the U.S. Court of Appeals. Actions seeking such review must be filed within 90 days of a final FERC decision.

For 2010 and 2011, power rate levels will be addressed at the same time as the transmission rates a single rate case with FERC. Discussions will begin in 2008.

In February 2008, BPA put forth its initial rate proposal for 2008 supplemental power rates. BPA proposes to change power rates for FY 2009 based on certain readjustments. They propose to charge rates of about $26.15/MWh to their preference customers in FY 2009 and provide certain benefits to their residential exchange customers.

Financials

BPA's finances have stabilized over the last few years. In FY 2007, BPA's debt-service coverage for its ENW obligations (both prior lien and revenue bond lien) was more than 4.9 times (x). Not since 1983 has BPA deferred its payments to the U.S. Treasury.

Performance in 2007 was somewhat negatively affected by reduced stream flows and a biannual refueling of CGS, which resulted in lower revenues from electricity and transmission sales. BPA ended FY 2007 with $1.463 billion in year-end reserves, versus $1.193 billion in 2006 and $554 million in FY 2005.

Reserves are expected to remain at high levels (especially given adjustments that will trigger if results are $150 million below expectations).

Capital expenditures are projected at $600 million per year (more than half for transmission, with the remaining for conservation, fish and wildlife and hydro maintenance).

Demographics

BPA's primary customer service area is the Pacific Northwest region of the United States, encompassing Idaho, Oregon, Washington, parts of western Montana, and small parts of western Wyoming, northern Nevada and Northern California. BPA sells electric power sold in a 300,000 square-mile service area with total population serviced approximating 12 million people.

BPA sells and/or exchanges power with more than 100 utilities in the region and with several industrial customers through contracts that expire in 2011. The Northwest Power Act requires BPA to meet certain firm loads in the Northwest of various preference customers and regional IOUs. BPA does not have an obligation to meet all firm loads within region or enter into contracts to sell any power to DSIs. BPA has four major customer classes: preference customers (62% of electric sales revenues), regional IOUs (14%), regional customers (22%) and direct service industries (3%).

Environment, Fish & Wildlife

Under the Pacific Northwest Electric Power Planning and Conservation Act, BPA is directed to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA's fish and wildlife costs fall into two main categories: direct costs and operational impacts. The agency estimates that the aggregate total of direct and replacement power costs (the latter included in operational effects) totaled approximately $434 million in FY 2007, compared with $576 million in FY 2005 and $852 million in FY 2006. One-third of BPA priority firm rate is costs of fish and wildlife.

Security Provisions

The 2008 bonds are payable on a subordinate basis to ENW's outstanding prior lien bonds. The prior-lien resolution was previously closed. BPA is obligated to pay debt service on the ENW bonds (prior lien and revenue bonds) before any of its payments to the U.S. Treasury. BPA's obligations are not general obligations of the United States government and are not secured by the full faith and credit of the United States. There is no reserve account securing repayment of the 2008 bonds

BPA receives money from the sale of power and the provision of transmission and other services at rates that seek to produce revenues that recover BPA's costs, including its required payment to the U.S. Treasury. Rates are approved by FERC. Cash receipts are deposited in the Bonneville Fund, which is a separate fund within the U.S. Treasury. From this fund, BPA must first pay all the costs necessary to operate and maintain the federal system, including payments of the net billed bonds. Only after these payments are made may BPA make required annual payments to the U.S. Treasury.

Financial Summary — Bonneville Power Administration

($000, Fiscal Years Ended Sept. 30)

	2007	2006	2005	2004
Cash Flow (x)				
Debt-Service Coverage	4.92	4.93	4.58	7.36
Adjusted Debt-Service Coverage with General Fund Transfer	4.92	4.93	4.58	7.36
Coverage of Full Obligations	3.95	3.66	3.24	4.57
Liquidity				
Days Cash On Hand	287	241	130	133
Days Liquidity On Hand	287	278	298	133
Leverage (%)				
Debt/Funds Available for Debt Service	9.4	8.0	10.2	9.0
Equity/Capitalization	15.0	13.0	9.0	5.0
Equity/Adjusted Capitalization	15.0	12.0	8.0	5.0
Other (%)				
General Fund Transfer/Total Revenue	0.0	0.0	0.0	0.0
Variable-Rate Exposure/Capitalization	0.0	0.0	(3.3)	0.0
Income Statement				
Total Operating Revenues	3,268,640	3,419,369	3,268,083	3,197,911
Total Operating Expenses	2,231,364	2,209,136	2,212,389	2,160,170
Operating Income				
Adjustment to Operating Income for Debt-Service Coverage	351,787	353,236	375,600	366,239
Funds Available for Debt Service	1,395,582	1,663,562	1,336,698	1,770,219
Total Annual Debt Service	283,753	337,627	291,540	240,662
Balance Sheet				
Unrestricted Funds	1,475,544	1,225,075	651,740	654,242
Restricted Finds	0	0	0	0
Total Cash	**1,475,544**	**1,225,075**	**651,740**	**654,242**
Total Debt	13,129,154	13,320,787	13,612,450	15,854,220
Equity and/or Retained Earnings	2,402,565	1,945,357	1,334,294	847,424