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Energy Northwest, Washington Bonneville Power Administration; Retail Electric; Wholesale Electric

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Credit Profile		
US\$300.425 mil proj 1 elec rev rfdg bnds (tax-exempt & taxable) (Bonneville Pwr Admin) ser 2008A&B due 07/01/2024		
<i>Long Term Rating</i>	AA-/Stable	New
US\$288.625 mil Columbia generating sta elec rev & rfdg bnds (Tax-Ex & Taxable) ser 2008A-C due 07/01/2024		
<i>Long Term Rating</i>	AA-/Stable	New
US\$78.225 mil proj 3 elec rev rfdg bnds (tax-exempt & taxable) (Bonneville Pwr Admin) ser 2008A&B due 07/01/2024		
<i>Long Term Rating</i>	AA-/Stable	New
Bonneville Pwr Admin elec		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the proposed \$667.275 million Energy Northwest (ENW), Wash.'s series 2008-A, 2008-B and 2008-C refunding bonds and revenue bonds. The rating's outlook is stable. The bonds' debt service is payable as a Bonneville Power Administration (Bonneville) operating expense.

Standard & Poor's also affirmed its 'AA-' ratings on outstanding Energy Northwest electric revenue bonds and several additional nonfederal debt obligations supported by Bonneville. The ratings assigned to the ENW and other nonfederal debt paid as a Bonneville operating expense do not constitute Bonneville's issuer credit rating and are not an assessment of Bonneville's capacity to meet federal and nonfederal obligations.

Bonneville accords operating expense treatment to debt service on \$6.6 billion of nonfederal debt, including the ENW bonds. The nonfederal debt is paid ahead of debt service on \$6.6 billion of federal debt. Payment of the federal debt can be deferred if monies remaining after payment of operating expenses, including the nonfederal debt, are insufficient to meet total obligations. However, Bonneville is legally required to establish rates that are projected to cover all operating expenses as well as federal and nonfederal obligations. A cost recovery rate adjustment mechanism is available to Bonneville to make prescribed rate adjustments without rate proceedings in the event of shortfalls exceeding defined thresholds.

More than 90% of the proposed 2008A-C bonds are refunding bonds and the balance will finance capital projects at ENW's Columbia nuclear generating station. The 2008 bonds are all subordinate-lien bonds and the proposed refunding will move about \$340 million of ENW senior-lien debt to ENW's subordinate lien, representing a 30% reduction in ENW's \$1.11 billion of senior-lien debt. ENW closed its prior lien and additional prior lien debt cannot be issued.

ENW's \$6.2 billion of debt represents 94% of Bonneville's nonfederal debt commitments. Bonneville's federal debt includes bonds issued to the U.S. Treasury as well as federal appropriations that Bonneville must repay with interest.

Nonfederal debt covered by the 'AA-' ratings includes:

- Energy Northwest Columbia Generating Station, \$2.33 billion;
- Energy Northwest Nuclear Project No. 1, \$1.94 billion;
- Energy Northwest Nuclear Project No. 3, \$1.91 billion;
- Public Utility District No. 1 of Lewis County, Wash., Cowlitz Falls Project, \$140 million;
- Northwest Infrastructure Financing Corp. (Schultz Wautoma), \$120 million;
- Northern Wasco Public Utility District, Oregon, McNary Dam Project, \$30 million;
- Conservation and renewable energy system bonds, \$20 million;
- Tacoma, Wash. Conservation System Project, \$10 million; and
- Trojan Nuclear Project, \$10 million.

The 'AA-' ratings on the Bonneville-supported nonfederal debt reflects the following credit strengths:

- A track record of strong coverage of ENW debt service;
- The seniority of the ENW and other nonfederal debt relative to the \$6.6 billion of federal debt;
- A requirement that rates be established to cover all operating expenses and debt obligations, and the latitude to defer repayment of federal debt in the event of a shortfall;
- A 1 to 1 ratio of ENW debt to federal debt that facilitates debt service coverage of at least 2.0x for the ENW bonds because Bonneville must set rates targeted to meet all financial obligations, including the federal debt;
- The strong, efficient, and economical operations of the federal hydroelectric power system;
- Strong demand for the economical output of the combined Federal Columbia River Power System (FCRPS) hydroelectric projects and ENW nuclear production; and
- The broad service territory's large number of customers, which provides customer diversity and shields Bonneville from utility-specific credit risks.

Strengths are tempered by the following credit exposures:

- The benefits of autonomous ratemaking authority and financial flexibility are constrained by a highly politicized rate-making process.
- The terms under which customer contracts will be renewed in 2011 remain uncertain since rates, rate structures, the allocation of economical resources and other issues remain unresolved.
- Bonneville is exposed to volatile wholesale power markets because it must procure market power to meet customer needs exceeding the output of FCRPS and ENW.
- Revenues earned through surplus power sales are subject to hydrology conditions and fluctuating market prices for electricity.

Bonneville markets electricity generated at 31 federal hydroelectric projects; ENW's nonfederal, nuclear, Columbia Generating Station; and several nonfederal small power plants. Bonneville's operation of an extensive transmission system facilitates power marketing activities. Bonneville's transmission system represents about 75% of the Pacific Northwest's transmission capacity.

About 80% of the power Bonneville sells is hydroelectric. In addition, Bonneville has committed to pay for the

output of ENW's single operating nuclear plant and supports the financial commitments of three other nuclear plants that are unfinished or dormant. Nuclear electricity production accounts for between 9.3% and 10.3% of electricity sales. The lower end of this range reflects years with refueling outages.

Because only one plant, the Columbia Generating Station, supports the debt of operating and nonoperating nuclear plants, the resulting debt per kilowatt (kW) for the Columbia Generating Station's 1,157 megawatt (MW) capacity is very high at nearly \$5,700 per kW. The debt burden would have been lower, but for the Bonneville-initiated debt optimization program. This program has reduced Bonneville's overall debt obligations by accelerating federal debt while deferring ENW debt for payment in later periods.

The combination of low cost FCRPS hydroelectric production and Columbia Generating Station's reliable operations has given Bonneville the ability to maintain very competitive wholesale rates for its customers. The blended current rate of 2.7 cents per kilowatt-hour (kWh) for FCRPS and ENW power was implemented in October 2006 and is slated to remain in effect through September 2009.

Coverage of ENW debt service was very strong in 2005-2007 and equaled or exceeded 4.9x. These coverage levels may decline, however, as the debt optimization program is completed by 2009 and nonfederal debt service rises. Under the debt optimization program, ENW refinances and defers maturing ENW principal and Bonneville applies the deferred principal monies to the accelerated payment of Treasury obligations to create more capacity for future Treasury borrowing under the capped maximum. Deferring ENW principal repayment bolsters ENW debt service coverage. The debt optimization program has not meaningfully altered the 1 to 1 ratio between nonfederal and federal debt. This closely aligned relationship between ENW and federal debt perpetuates the strong coverage cushion that federal debt provides to nonfederal obligations. As Treasury debt has been prepaid, ENW debt, as a percentage of total debt, has increased slightly to 50% in 2007 from 48% in 2005.

Outlook

The stable outlook reflects the cushion that the Treasury debt provides to the ENW and other nonfederal debt, a lengthy track record of timely Treasury payments, and the availability of the cost recovery adjustment clause as a buffer against degraded financial performance that may occur if market conditions for sales of surplus power and the procurement of power needed to satisfy demand that exceeds FCRPS and ENW output deteriorate. However, significant exposure to hydrology conditions and wholesale markets remains, which constrains upside rating potential.

Strong Liquidity

Bonneville liquidity benefits from its customers' migration from a net billing arrangement with ENW to a direct pay system. Under the net billing arrangement, customers remitted funds to ENW, rather than to Bonneville. ENW made payments to Bonneville only after ENW had fully funded its annual debt service and operations and maintenance (O&M) obligations. This typically took about four months. Under the direct pay arrangement, customers pay Bonneville directly and Bonneville makes monthly payments to ENW to cover its debt service and O&M, leaving Bonneville with stronger liquidity. Payments made directly to Bonneville have enhanced Bonneville's liquidity.

Bonneville had unrestricted cash of more than \$1.2 billion at fiscal years ended 2006 and 2007. These balances represented 56% and 66% of annual operating expenses, respectively. Furthermore, Bonneville can also defer

federal debt maturities in the event of spikes in operating costs and liquidity pressures.

Limited FERC Rate Oversight

Bonneville proposes rates that are set after the Federal Energy Regulatory Commission (FERC) confirms compliance with federal statutory obligations, such as sufficiency to meet all obligations. Bonneville's rate-setting process solicits input from regional stakeholders, which translates into a lengthy, typically politically charged process. Stakeholders include customers, environmental agencies, and numerous interested parties.

Under the cost recovery adjustment clause instituted with rates that became effective Oct. 1, 2006, Bonneville has the ability to increase rates by up to \$300 million each year to account for wholesale revenue shortfalls. The formulaic nature of the adjustment mechanism mitigates the risks of a public rate review process through 2009. Based on revenues of approximately \$3.3 billion in each of the past three fiscal years, the adjustment mechanism provides latitude for rate adjustments of about 9% without engaging in protracted hearings.

Bonneville's 2007-2009 rates have been set to achieve a 97.5% annual probability of paying ENW and treasury debt service under a Monte Carlo simulation involving more than 3,000 combinations of primary variables such as water flows, power prices, and load. It is important to note that the probability of meeting just ENW debt service is higher than 97.5% annually, given the substantial amount of subordinated Treasury debt obligations. Bonneville can also legally reschedule treasury debt payments if needed.

To better manage its supply obligations and financial exposure to market costs for wholesale power, Bonneville is proposing that customers pay tiered rates after current customer contracts expire in 2011. Rates in the first tier would reflect the cost of FRCPS and ENW energy and limited supplemental market power. Under a second tier, customers would pay market prices for energy needs beyond FRCPS and ENW system capabilities. The lengthy dialogue surrounding development of tiered rates is ongoing and many key elements need to be resolved before new long-term customer contracts can be executed.

Bonneville is legislatively mandated to share benefits of its low-cost power with regional investor-owned utilities' residential and small-farm customers. The extent of cost and benefit sharing between preference customers and investor-owned utility customers is the subject of lengthy litigation. Bonneville should be financially indifferent to the outcome of these disputes since its rates must cover all costs irrespective of allocation among different groups. Nevertheless, the legal wrangling is a concern since it places meaningful demands on management.

Markets: Large And Diverse Customer Base

Bonneville's wholesale customers include public utilities, public utility districts, municipal districts, cooperative utilities, and investor-owned utilities. Surplus energy is first offered to customers and then to other utilities in the West. Surplus sales' margins are used to offset operating costs.

The large customer base (see table 1) and favorable project economics create strong demand for FCRPS and ENW generation, contribute to a secure revenue stream, and credit quality.

Table 1

Bonneville Power Administration's Customers	
Cooperatives	57

Table 1

Bonneville Power Administration's Customers(cont.)	
Municipalities	41
Public utility districts	29
Federal agencies	7
Investor-owned utilities	6
Direct-service industries	5
Port district	1
Tribal	2
Total	148
Power marketers	48
Transmission customers	309

Table 2

Bonneville Power Administration's Largest Sources of Operating Revenues		
%	2006	2007
Electricity sales to publicly owned utilities	50	56
Electricity sales to investor-owned utilities	15	9
Electricity sales outside of the Northwest region	20	14
Transmission system	19	21

Note: These percentages do not include adjustments for financial hedging activities and, therefore, may total more than 100%.

Operations: Huge Operational Diversity

FCRPS hydroelectric capacity exceeds 21,000 MW, spread over 206 generating units, which provides for tremendous operational diversity. However, the sustained peak capacity of the hydroelectric system is a meaningfully lower 12,700 MW. Moreover, poor hydrology can impair operational and financial performance by reducing hydroelectric output available for sale to system customers and wholesale markets. Fish migration needs and flood control can also constrain hydroelectric production.

ENW's nuclear Columbia Generating Station adds 1,157 MW of capacity and exhibits strong availability and capacity factors between refueling cycles. The nuclear plant is refueled every other year. Nuclear electricity production accounts for between 9.3% and 10.25% of electricity generated. The lower end of the range reflects years with refueling outages.

ENW's \$6.2 billion of debt is associated with only 1,157 MW of operating nuclear capacity. By comparison, \$6.6 billion of federal debt is borne by 21,000 MW of hydroelectric capacity. Therefore, the debt service costs per megawatt-hour of nuclear production are about seven to eight times the cost of hydroelectric production. The debt burden would have been lower, but for the Bonneville-initiated debt optimization program. This program has reduced Bonneville's overall debt obligations by accelerating federal debt while deferring ENW debt for payment in later periods.

Ratings Detail (As Of March 6, 2008)

Ratings Detail (As Of March 6, 2008) (cont.)		
Bonneville Pwr Admin elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Columbia) (MBIA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec (1,columbia,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Conservation and Renewable Energy Sys, Washington		
Bonneville Pwr Admin, Oregon		
Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin) (AMBAC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 1, Columbia Generating St, & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2006 A-D		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station (wrap of insured) (MBIA & FSA) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Rating Assigned
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (FSA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (MBIA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Washington Pub Pwr Supp Sys (Bonneville Pwr Admin) (AMBAC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Bonneville Pwr Admin) (Nuclear Proj 1-3) rfdg rev bnds ser 1997A dtd 09/01/1997 due 07/01/2008-2017		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) rfdg rev bnds ser 93C dtd 9/23/93 due 7/1/2013 2014 2015 2017(CUSIP #939830RW7 RY3 RX5 RZ0)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin) (MBIA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Eugene, Oregon		
Bonneville Pwr Admin, Oregon		
Eugene (Bonneville Pwr Admin) (Trojan Nuclear Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Ratings Detail (As Of March 6, 2008) (cont.)

Lewis Cnty Pub Util Dist, Washington

Bonneville Pwr Admin, Oregon

Lewis Cnty rev rfdg bnds (Bonneville Pwr Admin) (Cowlitz Falls Hydroelectric Proj) ser 2003 dtd 07/16/2003 due 10/01/2007-2012

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Lewis Cnty Pub Util Dist (Bonneville Pwr Admin) (Cowlitz Falls Hydroelec Proj) ser 1991 1993 2003

Long Term Rating AA-/Stable Affirmed

Lewis Cnty (Bonneville Pwr Admin) rev rfdg bnds (Cowlitz Falls Hydroelectric Proj) ser 2003 dtd 07/16/2003 due 10/01/2013-2024

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Northern Wasco Cnty Peoples Util Dist, Oregon

Bonneville Pwr Admin, Oregon

Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)

Long Term Rating AA-/Stable Affirmed

Northwest Infrastructure Financing Corp., New York

Bonneville Pwr Admin, Oregon

Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANs

Long Term Rating AA-/Stable Affirmed

Tacoma, Washington

Bonneville Pwr Admin, Oregon

Tacoma (Bonneville Pwr Admin) (Pub Util Lt Div Conserv Sys Proj)

Long Term Rating AA-/Stable Affirmed

Many issues are enhanced by bond insurance.

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