

## High Profile New Issue

# Moody's Global Infrastructure and Project Finance-Americas

### Sale Details

Energy Northwest Credit  
Rating: Aaa

Bonneville Power  
Administration Issuer  
rating: Aaa

Security: Net billing  
agreements with BPA

Bond Amount: **\$376,100,000**

Sale Date: April 2009

March 2009

## Energy Northwest

Bonneville Power Administration

### Rating Rationale

The Aaa rating on Energy Northwest revenue bonds is rooted in the legal arrangements between Energy Northwest and the United State of America, acting by and through Bonneville Power Administration (BPA) that secure the bonds. BPA has strong business fundamentals including a strong financial position.

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### Strengths:

- Event and court-tested net billing agreements obligate BPA (rated Aaa issuer rating) to ensure timely and sufficient revenues to pay debt service on Energy Northwest revenue bonds
- BPA has strong business fundamentals and is a U.S. Energy Department line agency
- BPA has 20-year power supply contracts with participants; strong financial liquidity and a timely cost recovery process

### Challenges:

- Conflicting uses of Columbia River
- Environmental litigation
- Transmission and load balancing adequacy

### Outlook:

BPA has a stable outlook. The business fundamentals of BPA continue to be sound with strong financial reserves and competitive wholesale power rates.

### What Could Change the Rating-DOWN

Rating could be lowered if there are federal constraints placed on BPA's role in region or if BPA's net billing agreement obligation is violated

### What Could Change the Rating-UP

Energy Northwest revenue bonds are at the highest rating of Aaa.

### Key Facts:

BPA Coverage of Non-Federal Project Debt  
Service, 2008: 3.2 x

BPA Wholesale Power Rate, 2009: 2.8  
cents/kwh

Energy Northwest outstanding revenue  
bonds: Project 1, Columbia Nuclear and  
Project 3: \$6,034,580,000



## Energy Northwest, WA

BPA NON-FEDERAL PROJECT DEBT (1)			
DEBT STATEMENT AS OF March 1, 2009 (\$000)			
	Rating	Amount Outstanding	Final Maturity
<b>ENERGY NORTHWEST REVENUE BONDS</b>			
Nuclear Project No.1	Aaa	\$1, 863,790	7/1/2024
Columbia (Nuclear Project No.2 )	Aaa	2,,359,765	7/1/2024
Nuclear Project No.3	Aaa	1,811,025	7/1/2024
Lewis County PUD 1-Cowlitz Falls Project	Aaa	\$137,810	10/1/2024
Tacoma Conservation System Project Rev.	Aaa	12,315	12/1/2014
Northern Wasco County-McNary Dam	Aaa	25,625	12/1/2024
Eugene Trojan Nuclear Project	Aaa	8,195	9/1/2008
Northwest Infrastructure Financing Corp.	Aaa	119,587	7/1/2034
Conservation and Energy Renewable System	Aaa	20,520	10/1/2014

(1) Excluding Energy Northwest Nine Canyon Wind Project which is not secured by net-billing agreements

## Energy Northwest, WA

## ENERGY NORTHWEST

## Rating History

## Nuclear Project No. 1:

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
Apr-83	Baa
May 1982:	A1
February 1982:	A1
September 1975:	Aaa

## Nuclear Project No. 3

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
May 1983:	Baa
May 1982:	A1
February 1982:	Aa
November 1975:	Aaa

## Nuclear Project No. 2

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
June 1983:	Baa
May 1983:	A1
February 1982:	A1
February 1975:	Aaa

## Nuclear Projects Nos. 4 and 5:

June 1983:	Withdrawn
June 1983:	Caa
January 1982:	Suspended
June 1981:	Baa1
February 1977:	A1
(1) Not a BPA-backed obligation.	

(1) Washington Public Power Supply System Project 1 was a partially constructed nuclear unit that Energy Northwest terminated. Energy Northwest has plans for demolition of the project and restoration of the site. Outstanding revenue bonds secured by net billing agreements with BPA.

(2) Columbia Generating Station (formerly Project 2) is an operating 1157 MW nuclear generation facility.

(3) Washington Public Power Supply System Project 3 was a partially constructed nuclear unit that was terminated by Energy Northwest. The site was transferred to the Grays Harbor PUD 1 and developed into a combustion turbine site. Outstanding revenue bonds secured by net billing agreements with BPA.

(5) Projects 4 and 5 terminated in 1982 and projects 4 and 5 bonds went into default on July 22, 1983. Revenue bonds were not backed by net billing agreements.

## Analysis

Moody's has assigned the credit rating of Aaa to the Energy Northwest's sale of \$376,100,000 (par amount) revenue bonds including: \$47,985,000 Project 1 Electric Revenue Refunding Bonds, Series 2009-A1; \$116,685,000 Columbia Generating Station Electric Revenue Refunding Bonds, Series 2009-A2; \$119,480,000 Project 3 Electric Revenue Refunding Bonds, Series 2009-A-3; \$1,450,000 Project 1 Electric Revenue Refunding Bonds, Series 2009B-1 (Taxable); \$20,515,000 Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2009B-2 (Taxable); \$1,305,000 Project 3 Electric Revenue Refunding Bonds, Series 2009B-3 (Taxable); \$68680,000 Columbia Generating Station Electric Revenue Bonds, Series 2009C. The bonds are expected to be priced in April 2009. Moody's has also affirmed the Aaa rating on the outstanding

## Energy Northwest, WA

Project No. 1 bonds; the Aaa rating on the outstanding Columbia Generating Station bonds and the Aaa rating on the outstanding Project No. 3 bonds.

Moody's has also affirmed the Aaa issuer rating on the Bonneville Power Administration (BPA).

The Aaa rating on Energy Northwest revenue bonds is rooted in the legal arrangements, principally in the net billing agreements between Energy Northwest and BPA that secure the bonds. BPA (issuer rating Aaa) has strong credit fundamentals including sound financial liquidity, a management that has been willing to implement strategies to maintain a sound financial position and competitive wholesale power rates that are a result of its low cost hydroelectricity generation. Fiscal year 2009 ended with a very strong reserve level, which has been a consistent year-end result. BPA has established new 20-year power supply contracts with regional municipal and cooperative utilities which is a positive factor. In 2009, BPA received an increase in its federal line of credit in the 2009 federal stimulus legislation, increasing the line with the U.S. Treasury to \$7.7 billion. Preliminary 2009 financial forecasts indicate lower surplus power sales outside the Northwest region which lowered projected year-end financial reserve levels by 15% to 30%.

## Key Indicators

## BPA Debt Service Coverage and U.S. Treasury Payments (\$000)

	2003	2004	2005	2006	2007	2008
Total BPA Operating Revenues	\$3,612,104	\$3,197,911	\$3,268,083	\$3,419,369	3,268,641	\$3,036,618
Total BPA Operating Expenses	2,042,991	1,579,896	1,621,256	1,638,746	1,645,108	1,463,174
Net available for Non Federal Project Debt Service	\$1,569,113	\$1,125,209	\$1,646,827	\$1,780,623	1,623,533	\$1,573,444
Non-Federal Project Debt Service	119,534	230,175	291,540	337,627	343,321	490,557
Non-Federal Project Debt Service Coverage Ratio (x)	13.1	6.5	5.6	5.3	4.7	3.2
Net revenue available for Treasury	\$1,449,579	\$1,369,540	\$1,355,287	1,442,996	1,280,212	1,082,887
Corps and Bureau O&M	198,539	214,035	215,553	217,154	243,469	243,073
Net interest expense	345,591	284,851	277,284	261,543	236,748	216,905
Amortization of principal	543,747	592,500	616,502	640,921	618,400	555,269
Total amount paid to Treasury	1,174,221	1,183,668	1,187,553	1,194,128	1,162,687	1,093,749
Revenues available for other purpose	275,358	185,872	167,734	248,868	117,525	-10,862
Available reserves	511,000	638,000	554,000	1,193,000	1,146,300	1,646,000

### Legal Security: Event-and Court-Tested Net Billing Agreements with BPA Provide Strong Security to Energy Northwest Revenue Bonds

Bond security is the pledge of revenues including amounts derived from the net billing agreements with the United States Government, acting by and through the BPA Administrator. The U.S. Government has made a clear and tested commitment through BPA to support the payment of the Energy Northwest Revenue bonds. This commitment is demonstrated through the net billing agreements between Energy Northwest participants and BPA. The agreements have withstood more than 25 years of stressful circumstances, such as the legal challenges in the early 1980s to Nuclear Project 1, the Columbia Generating Station, and the Project 3 bonds brought about by the Project 4 and 5 bond defaults (Projects 4 and 5 were not backed by the BPA net billing agreements). Also, despite the termination of the construction of Projects 1 and 3, (the projects were formerly

## Energy Northwest, WA

nuclear generation units that were expected to be constructed) the net billing agreements are still in force and debt service on those project bonds is being paid.

The net billing agreements obligate project participants, consisting of numerous public utility districts and municipal and electric cooperative utilities, to pay Energy Northwest a proportionate share of the Energy Northwest project's annual costs, including debt service, in accordance with each participant's purchase of project capability. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing amounts the participants owe for power and service purchased from BPA under their power-sales agreements. Even after project termination, such as in the case of Projects 1 and 3 (the construction of the nuclear units was terminated), the obligation for debt service is in effect until the Energy Northwest bonds are retired.

In 2007, Energy Northwest and BPA adopted a new direct pay agreement whereby Energy Northwest participants directly pay all costs to BPA rather than through Energy Northwest.

The US Court of Appeals for the Ninth Circuit affirmed in the City of Springfield v. WPPSS; 752 F.2d.1423, the legal authority of all participants to enter into the net billing agreements; the US Supreme Court denied a petition for a writ of certiorari. The obligation of BPA and the participants is in force whether the projects are operable or terminated.

Most importantly and a source of significant credit strength, BPA has agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash, directly, and in a timely manner. While the net billing agreements may be terminated prior to the maturity on the related net billed bonds, the obligation of the participant to pay their proportionate share of the debt service continues, as does the obligation of BPA to credit these payments or make a payment if in any event there was an insufficient payment by a participant.

### Use of Bond Proceeds:

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A major portion of the current offering is Energy Northwest's participation in the Bonneville Power Administration's Debt Optimization Program" to extend the final maturities of current maturing outstanding Net Billed Bonds to the 2013-2018 timeframe through a series of refunding issues. The plan has given BPA additional cash flow flexibility to fund planned capital expenditures and by advancing the amortization of higher cost BPA U.S. Treasury debt.

### Recent Developments:

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BPA has finalized with regional public power utilities on post 2011 energy allocations from the federal hydro system with the signing of new 20-year preference power sales contracts. A major objective of BPA in the development of the new contracts was to establish longer terms for better certainty for price and infrastructure decisions. Two rates are being used: Tier 1 would be for preference customers at a rate to recover costs of the federal system and Tier 2, would recover the marginal cost to BPA of acquiring the electric power needed to serve any BPA purchases to meet incremental loads.

## Credit Fundamentals

### Strengths:

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- Moody's believes there is implicit U.S. Government support including the direct borrowing authority with the US Treasury (\$7.7 billion) and the legal ability to defer its annual Treasury repayment if necessary to meet non-Federal debt service commitments (which includes Energy Northwest bonds) under the net billing agreements. BPA has established the planning policy of meeting a 95% probability over the next two years of making its U.S. Treasury payment on time which is a key strategy to ensure timely revenue bond debt service payment
- Growing cost advantage of BPA's extensive hydroelectric system energy relative to other fuels is reflected in BPA's firm competitive wholesale rate position

## Energy Northwest, WA

- BPA's established record of full cost recovery from its current power rates and its sound financial management are credit strengths
- Fiscal year 2008 results reflect a strong level of financial reserves providing BPA a cushion should significant drought conditions return
- BPA's important role in the northwest region of the U.S. BPA owns and operates 75% of the bulk transmission system and markets low cost hydroelectric power amounting to 35% of the region's power
- BPA has several sources of liquidity including a line of credit with the U.S. Treasury, providing it with a substantial cushion in a worst case power market environment
- New 20-year power supply contracts with BPA public power electric utility customers is a positive factor

### Challenges:

- Conflicting uses of Columbia River, (flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection and power generation), can influence the ability of the system to meet load from federal system
- Development of wind energy has presented complicated transmission and load balancing issues
- Resource adequacy issues should new independent power producer generation be exported from region
- Most of the energy and power marketed by BPA is generated by the federal system's 31 hydroelectric facilities, most of which are located in the Columbia River Basin. Weather conditions affect water flow, which creates variability in electricity supply and this exposes BPA to the volatility of the wholesale power market should it need replacement resources to meet load
- Significant litigation over salmon issues could pose new costs that would have to be reflected in rates should an adverse decision result

### BPA's Status as a U.S. Energy Department Line Agency and its Relationship to the Federal Government are Important to the Credit Rating

**Moody's has affirmed the issuer rating of Aaa on BPA** based on its fundamental credit strengths, as well as, government ownership. Although such ownership does not necessarily translate into strong credit standing for an U.S. owned enterprise, BPA's strong credit fundamentals are further strengthened by its relationship with the federal government.

Moody's finds credit strength in BPA's ties to the federal government as a result of the following:

**A Line of Credit with Treasury.** BPA has authority to sell to the United States Treasury \$7.7 billion principal amount of bonds. BPA directly funds the entire O&M expenses of the federal Columbia River Power System.

**Strength of US Governmental Control.** BPA is not a government corporation but a traditional line agency that is part of the US Department of Energy. The Energy Northwest /BPA contracts are contractual obligations of the US, and are executed by the US Department of Interior. (See Springfield vs. WPPSS 564F Supp 90). The link between BPA and the federal government is further strengthened because BPA must submit annual budgets to Congress and the Department of Justice remains responsible for BPA litigation. There were no adverse proposals to BPA operations or finances contained in the President's budget proposed for Fiscal Year 2010. The Federal Energy Regulatory Commission (FERC) must confirm the electric rates established by BPA.

**Implicit US Government Support.** BPA is required by statute to defer its annual Treasury payments if funds are needed to meet its non-federal debt obligations like the Energy Northwest revenue bonds. BPA has not deferred such payments since 1983. BPA may issue to the Treasury, and the Treasury is required to

## Energy Northwest, WA

purchase, up to \$7.7 billion of bonds. Payment on these bonds is subordinate to BPA's obligations on the Energy Northwest net billed bonds.

In the 2001-2003 Pacific Northwest energy crisis, BPA demonstrated it had other federal financial liquidity tools that were available should there be an adverse situation. For example, in 2001, BPA used credits under Section 4(h)(10)c of the Northwest Power Act which relate to federal payment of fish and wildlife protection costs to reduce the actual cash payment to the U. S. Treasury. Without the credits, the power rate increase on customers would have been more significant. BPA identified sources of liquidity of over \$1.5 billion to bridge any gaps due to short term cash flow shortfalls. While there is no explicit US Government support for the net billed bonds, there is implicit support.

**Economic, Social, and Political Ramifications of A Failure of BPA.** BPA provides 35% of the electric power in the Pacific Northwest, owns 75% of the bulk electric power transmission, and 80% of the transmission capacity of the Pacific Northwest-Pacific Southwest Intertie . BPA is also responsible for significant regional environmental protection programs as well as for coordinating river operations and treaty responsibilities with Canada. BPA funds 70% of the fish and wildlife mitigation and recovery efforts in the Columbia Basin. A BPA failure would have a far-reaching effect on the region, and it is our opinion that the federal government would go to substantial lengths to avoid such an occurrence. In addition, as the Northwest region looks to diversify and add to its power resources, BPA is playing a major role in building new transmission lines to insure new wind generation constructed in the region can efficiently get to the regional marketplace.

**Stated Political Support.** Broad support for BPA was evident in the Clinton and Bush Administration's approval of the InterAgency Fish Agreement that has established financial and operating parameters for operation of the federal hydro system. The Obama Administration approved significant new borrowing authority largely for construction of new transmission facilities.

**Powerful Political Constituencies.** Due to the importance to the region BPA serves, there is significant northwest U.S. representation on key U.S. House and Senate committees that deal with legislation related to BPA. For example, five US senators from the Northwest are on the Senate Energy and Natural Resources Committee which would suggest that any legislation dealing with electricity issues will have to treat the region's interests (including BPA) well if it were to move out of the committee's jurisdiction.

**Past US Government Support Which Aided Financial Health.** Since the creation of BPA, numerous statutes have been enacted to address issues involving BPA and the Northwest region. Among them are the Bonneville Project Act of 1937, The Flood Control Act of 1944, the 1974 Federal Columbia River Transmission System Act, the Pacific Northwest Electric Power Planning and Conservation Act of 1980, and the 1996 BPA Appropriations Refinancing Act. Each of these federal statutes include provisions that aid BPA's financial health while meeting broader public policy obligations.

## Business Fundamentals

### Strong Fundamental Credit Strengths of BPA Factored in Rating Assigned

BPA markets energy to nearly 12 million people from 31 federally-owned hydroelectric facilities constructed on the Columbia River. About 94% of generating capacity is from 12 projects. The facilities comprise more than 80% of BPA's firm power supply. (See Figure 1, which lists the numerous facilities.) Power dispatched from Energy Northwest's Columbia Generating Station nuclear plant represents about 10% of BPA total energy resources. Output of the federal hydro system is 10,600 average megawatts annually during median water conditions and 8,500 average megawatts annually under low water conditions. BPA's key business consists of power sales to public and private utilities for resale purposes.

## Energy Northwest, WA

FIGURE 1

## FEDERAL OPERATING SYSTEM CAPACITY AND ENERGY 2008

Project	Initial Year of Service	Type	Number of Units	Nameplate Rating (MW)	Firm Energy (aMW)(1)
<b>U.S. Bureau of Reclamation(USBR)</b>					
Grand Coulee	1941	Hydro	33	6,326	1,946
Hungry Horse	1952	Hydro	4	361	83
Other			16	225	129
Total USBR			53	6,912	2,158
<b>U.S. Army Corps of Engineers(USACE)</b>					
Chief Joseph	1955	Hydro	27	2,535	1,084
John Day	1968	Hydro	16	2,484	819
The Dalles	1957	Hydro	24	2,074	619
Bonneville	1938	Hydro	20	1,047	384
McNary	1953	Hydro	14	1,127	495
Lower Granite	1975	Hydro	6	930	165
Lower Monumental	1969	Hydro	6	923	153
Little Goose	1970	Hydro	6	928	180
Ice Harbor	1961	Hydro	6	693	169
Libby	1975	Hydro	5	579	173
Dworshak	1974	Hydro	3	445	146
Other Corp Projects			20	198	225
Total USACE)			153	13,963	4,612
Total Federal System			206	20,875	6,770
<b>Existing Non-federally owned BPA resources</b>			<b>Peak capacity(mw)</b>	<b>Firm Energy(aMW)</b>	
Columbia Generating Station	1984	Nuclear	1,150		1,030
Other Non-Federal Projects		Various	95		148
Total			1,245		1,178
Firm Contracts				473	659
Total Federal System Resources				22,593	8,607

(1) 12 month annual average for 2006 assuming 1937 water conditions.

Despite increased competition from alternative power sources and the increase in BPA's power rate, BPA's cost structure remains competitive as a result of the dominant and low-cost hydroelectric generation. In 2010, BPA's Full Requirement Power Rate is expected to be about was \$29/mwh. In 2009 the average regional cost of power was in the \$50/mwh range. Moody's believes that the relative economic advantage of BPA's hydroelectric assets has increased, as the price of other fuels have increased. In particular, hydroelectric generation has a growing advantage over natural gas fired generation.



## Energy Northwest, WA

## BPA and Regional Utilities Signed Power Supply Contracts for Beyond 2011

Under the Northwest Power Act, BPA has a statutory obligation to meet electric power loads in the Northwest region that are placed on BPA by electric power utilities. BPA has now contracted for its available firm generation the post 2011 energy allocation from the federal hydro system. An important objective of BPA is to contract with the public sector purchasers of BPA energy and capacity for 20 year contracts. The longer-term take-or-pay contracts are to establish longer-term certainty for both price and infrastructure development decisions. BPA is developing tier rates so pricing signals can be incorporated into resource planning. Tier 1 rates would be for the power from the federal hydro system and tier 2 for augmentation if the utility contracts for any additional power resource needs.

### Background on BPA

In 1937, an act of Congress created BPA to market power from hydroelectric facilities constructed on the Columbia River. The Army Corps of Engineers and the Bureau of Reclamation operate the hydro projects. BPA is one of four regional power marketing agencies within the Department of Energy. Many of the statutory authorities of BPA are vested with Secretary of Energy, who appoints and acts through the BPA administrator BPA's wholesale power rates are approved by the Federal Energy Regulatory Commission to ensure full-cost recovery. Federal law requires BPA to meet specified energy requirements in the Northwest region. BPA is also required to implement conservation measures and to provide transmission services. The federal hydro projects also serve numerous purposes, including irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, and power generation. The amount of power produced by the federal hydro generation units varies with annual precipitation and other weather conditions.

## Energy Northwest Columbia Generating Station Maintains Sound Operating Record

Energy Northwest operates the Columbia Generating Station, the 1,157 MW nuclear facility, which continues to have a good performance record. In 2008, the nuclear facility generated 8,017 GWhrs of energy. The nuclear energy amounts to 10% of BPA's 2009 energy resources. BPA dispatches all of the energy generated at the nuclear unit...

Of the original five planned nuclear units, the Columbia Generating Station is the only nuclear unit of the original five planned in operation with all the power economically dispatched by BPA. The 1,157 MW generating station has had an improving record, with a low capacity factor of 74.2% since commercial start date. Capacity factors in more recent years have been improving and are in the 97% range.

In 2008, the capacity factor was 98.9% and the cost of production was at \$27.85/mwh almost as low as the wholesale rate charged by BPA which typically reflects the cost of the dominant hydroelectricity production. In 2009, the cost of production for the Columbia Generating Station is budgeted at \$48.25/mwh. The higher cost is due to the expected refueling outage in 2009 versus none in 2008.

The plant has had a relatively good safety-performance record with satisfactory ratings from both the Nuclear Regulatory Commission and the Institute of Nuclear Power Operations. Energy Northwest's operating license extends to 2023. The facility has sufficient spent fuel storage including capacity expansion through 2024. Energy Northwest's management is working on a proposal to request extension of the nuclear operating license by 20 years, from 2023 to 2043.

The capital improvement plan includes about \$95 million over the next three years for the replacement of the feed water drive turbine, replacement of the reactor recirculation motors and pumps and replacement of numerous other pumps and motors.

## Energy Northwest, WA

## Financial Analysis

### **Sound Financial Management a Key Credit Strength; Willingness to Maintain Rates to Secure Sound Financial Position and Liquidity Tools Identified to Meet Risk Contingencies are Key Factors**

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BPA's financial results are significantly impacted by the impact of water conditions on hydroelectricity production and power sales. BPA's financial management has been focused on ensuring its federal and non-federal obligations are met.

BPA's demonstrated willingness to raise rates in a difficult situation such as the power crisis of 2000-2001 reflected the sound financial management of the agency. Wholesale power rates were raised by more than 40% to manage the combination of the impact of drought conditions on hydro production and the uncontrollable prices in the wholesale energy market. Subsequently wholesale rates have fallen and BPA remains very competitive within the region.

In 2008, BPA made payments to the U.S. Treasury in accordance with the stated schedule and also has included advanced amortization of debt under its debt optimization program. Net revenues were lower in 2008, primarily to the impact of the rate proceeding on the Residential Exchange Program which included \$257 million in refunds to preference customers for over collections for 2007 and 2008. Non-federal debt service coverage ratio dropped to 3.2 times in 2008, which is close to the 10-year median. BPA has proposed an increase in wholesale power rates beginning in October 2009 of 9%, which would be the first rate increase since 2003. The increase in rates will be the subject of hearings over the next several months with a decision expected in July 2009.

BPA has identified a strategy to guide it through future critical water periods with various financial and operational tools to ensure sufficient liquidity to manage its operations. The Cost Recovery Adjustment Clause (CRAC) permits a one-year increase in rates up to \$300 million if accumulated net revenues are at or below a pre-determined threshold. BPA can also add a surcharge if fish recovery costs are higher than budgeted.

### **Bonneville Fund is a Key Source of Financial Flexibility**

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The Bonneville Fund is a continuing federal appropriation available to meet all of Bonneville's cash obligations. All receipts, collections, and recoverables of BPA in cash from all sources are deposited in the Bonneville Fund. BPA may make only such expenditures from the Bonneville Fund as shall have been included in budgets submitted annually to Congress. BPA includes in its annual budget submittal to Congress an amount sufficient to cover its obligations under the net billing agreements, including the payment of debt service on the net billed bonds. BPA is authorized under the Transmission System Act to make expenditures without further appropriation from Congress and without fiscal-year limitation if such expenditures have been included in the annual budget to Congress. The federal Office of Management and Budget includes BPA's budget in the budget the President submits to Congress.

In the opinion of the BPA's general counsel and according to federal statutes, BPA may only make payments to the US Treasury after making payments relating to the net billed bonds and other operating expenses. The net billed bonds have a priority position in the fund flow. This requirement could potentially result in the deferral of payments to the US Treasury in the event that net proceeds were insufficient for BPA to make its annual payment to the US Treasury. The deferral provides a source of financial flexibility for worst-case situations.

## Energy Northwest, WA

## Financial Results

## Energy Northwest

## Financial Performance (fiscal years ended 9/30 \$000) (1)

	2003	2004	2005	2006	2007	2008
Sales to NW public utilities	\$1,723,341	\$1,737,895	\$1,717,063	\$1,711,889	\$1,836,731	\$1,504,637
Aluminum industry	18,494	92,424	82,454	80,021	0	405
Investor-owned utilities in NW	436,702	363,201	390,511	502,601	281,362	214,153
Sales outside NW	628,243	489,063	600,765	691,508	460,656	603,891
Wheeling and other sales	805,324	727,483	716,137	641,132	689,287	721,513
Other power sales	1,211	191,547	188,754	13,129	95,309	101,723
Total Net operating revenues(1)	3,612,104	3,197,911	3,268,083	3,419,369	3,268,640	3,036,618
O & M	2,097,563	1,668,016	1,692,716	1,699,733	1,539,407	1,707,468
Net-billed debt service	104,329	222,779	267,373	315,016	319,383	457,847
Non-net billed debt service	15,205	25,696	24,167	22,611	23,938	32,710
Total nonfederal project debt service	119,534	248,475	291,540	337,627	343,321	490,557
Residential exchange	143,967	125,915	144,073	157,157	340,170	-1,220
Federal projects depreciation	350,025	366,239	375,600	353,238	351,787	358,064
Net operating revenue	901,015	789,266	764,154	872,605	669,955	481,749
Net interest expense on federal investment and treasury debt service	345,591	284,851	277,284	261,543	236,747	216,907
Net revenues (loss)	555,424	504,415	486,870	611,063	457,208	264,845
U.S. Treasury payment	1,174,221	1,183,668	1,187,553	1,194,128	1,162,687	1,093,750
<b>Non-Federal Project Debt Service</b>						
Ratio (X)	13.1	6.5	5.6	5.3	4.7	3.2

(1) Net of bookouts

## ENERGY NORTHWEST (1)

## FINANCIAL PERFORMANCE (fiscal year ended 6/30 \$000)

## Financial Performance (fiscal year ended 6/30 \$000)

Operating revenues	\$453,140	\$437,415	\$430,570	\$413,919	\$436,972	\$455,066
Investment income	13,321	1,678	4,160	16,505	8,070	9,382
Nuclear fuel	27,061	35,322	28,570	37,812	25,318	35,873
O&M	161,302	129,572	178,659	146,987	198,717	179,006
Other	50,560	75,122	28,630	27,560	30,599	35,311
Total O&M expenses	238,923	241,724	240,019	228,864	229,316	259,226
Net revenues	227,538	197,369	194,711	201,560	207,656	205,222
Interest expense	119,666	119,604	116,306	119,424	122,518	121,464
Principal and interest expense	140,976	119,604	118,483	122,543	126,798	125,744

(1) Columbia Generating Station debt service; Projects 1 and 3 have been terminated and remaining debt is paid from non-operating revenues and debt-service balances.

## Energy Northwest, WA

## Moody's Related Research

### Special Comments:

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- Regulation of Greenhouse Gases; Substantial Credit Challenges Likely Ahead for U.S. Public Power Electric Utilities, June 2007 (103356)
- Global Macro Risk Scenarios 2009-2010 From Global Integration to Global Disintegration, December 2008

### Rating Methodologies:

- U.S. Municipal Joint Power Agencies, September 2006 (99024)
- US Public Power Electric Utilities, April 2008 (106322)
- Evaluating the Use of Interest Rate Swaps by U.S. Public Finance Issuers, October 2007 (104186)

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