STANDARD & POOR'S

RatingsDirect®

March 18, 2009

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

Primary Credit Analyst:
David Bodek, New York (1) 212-438-7969; david_bodek@standardandpoors.com

Secondary Credit Analyst:
Jeffrey Panger, New York (1) 212-438-2076; jeff_panger@standardandpoors.com

Table Of Contents

710007 | 300019859

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

Credit Profile		
US$116.685 mil columbia gen station elec rev rfdg bnds subser 2009A-2 (Bonneville Pwr Admin) ser 2009-A due 07/01/2018		
Long Term Rating	AA/Stable	New
US$68.68 mil columbia gen station elec rev bnds (Bonneville Pwr Admin) ser 2009-C2 due 07/01/2024		
Long Term Rating	AA/Stable	New
US$47.985 mil proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2009A-1 due 07/01/2017		
Long Term Rating	AA/Stable	New
US$119.480 mil proj 3 elec rev rfdg bnds subser 2009A-3 (Bonneville Pwr Admin) ser 2009-A due 07/01/2018		
Long Term Rating	AA/Stable	New
US$20.515 mil columbia gen station elec rev & rfdg bnds (Bonneville Pwr Admin) ser 2009-B due 07/01/2011		
Long Term Rating	AA/Stable	New
US$9.075 mil columbia gen station elec rev bnds (Bonneville Pwr Admin) ser 2009-C1 due 07/01/2019		
Long Term Rating	AA/Stable	New
US$1.45 mil proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2009-B1 due 07/01/2011		
Long Term Rating	AA/Stable	New
US$1.305 mil proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2009-B due 07/01/2011		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to the following proposed Energy Northwest (ENW), Wash.'s revenue and refunding bonds:

- $47.99 million Project 1 electric revenue refunding bonds, series 2009A subseries 2009A1, due July 1, 2014 and 2015;
- $116.69 million Columbia Generating Station electric revenue refunding bonds, series 2009A subseries 2009A2, due July 1, 2014 through 2018;
- $119.48 million Project 3 electric revenue refunding bonds, series 2009A subseries 2009A3, due July 1, 2014 through 2018;
- $1.45 million Project 1 electric revenue refunding bonds, series 2009B1 (taxable), due July 1, 2014, 2023, and 2024;
- $20.52 million Columbia Generating Station electric revenue and refunding bonds, series 2009B (taxable), due July 1, 2011;
- $1.31 million Project 3 electric revenue refunding bonds, series 2009B3 (taxable), due July 1, 2014; and
- $68.68 million Columbia Generating Station electric revenue bonds, series 2009C, due July 1, 2020 through 2024.

The outlook is stable. The bonds' debt service is payable as a Bonneville Power Administration, Ore. operating expense.

Standard & Poor's also raised to 'AA' from 'AA-' its ratings on Energy Northwest's electric revenue bonds outstanding and several additional nonfederal debt obligations that Bonneville supports. The upgrade reflect our view that the strong liquidity Bonneville developed in the past five years provides a cushion against highly variable hydrology conditions and tempers the regulatory lag inherent in biennial rate cases. We also believe that the new long-term contracts between Bonneville and its customers following multiyear negotiations demonstrate the broad customer base's commitment to the Bonneville system even though electricity prices have yet to be determined. The new 20-year contracts will replace 10-year contracts expiring in 2011.

The ratings we assigned to the ENW and other nonfederal debt paid as a Bonneville operating expense do not constitute an issuer credit rating on Bonneville and are not an assessment of its capacity to meet federal and nonfederal obligations.

Bonneville accords operating expense treatment to debt service on $6.5 billion of nonfederal debt, including the ENW bonds. The nonfederal debt is paid ahead of service on $6.5 billion of federal debt. It can defer federal debt payment if money remaining after payment of operating expenses, including the nonfederal debt, cannot meet total obligations. However, Bonneville is legally required to establish rates that are projected to cover all operating expenses, and federal and nonfederal obligations. It has a cost recovery rate adjustment mechanism available to make limited rate adjustments without proceedings in the event of shortfalls exceeding defined thresholds. Bonneville revisits base rates every two years.

Except for $68 million of Columbia Generating Station new money bonds for capital improvements, the several series of proposed Project 1, Project 3, and Columbia bonds are all refunding. The new money bonds and the refunding bonds are all subordinate-lien. ENW closed its prior liens and cannot issue additional prior-lien debt. This transaction will reduce prior-lien debt by about $29.5 million or 4.5% to about $612 million by moving some senior-lien debt to the working subordinate lien. About $5.4 billion of subordinate-lien ENW debt is outstanding, representing about 85% of the total.

ENW's $6 billion debt represents 95% of Bonneville's $6.5 billion of nonfederal debt commitments. Bonneville also has $6.5 billion of federal debt that includes bonds issued to the U.S. Treasury and federal appropriations that Bonneville must repay with interest.

Nonfederal debt the 'AA' rating covers includes:

- Energy Northwest Columbia Generating Station ($2.36 billion);
- Energy Northwest Nuclear Project No. 1 ($1.86 billion);
- Energy Northwest Nuclear Project No. 3 $(1.81 billion);
- Public Utility District No. 1 of Lewis County, Wash.: Cowlitz Falls Project ($133 million);
- Northwest Infrastructure Financing Corp. (Schultz Wautoma; $120 million);
- Northern Wasco Public Utility District, Ore.: McNary Dam Project ($25 million);
- Conservation and Renewable Energy bonds ($18 million); and
- Tacoma, Wash. Conservation System Project ($11 million).

In our view, 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 $6.5 billion of federal debt;
- Bonneville's strong liquidity in the past five years, which provides some cushion against highly variable hydrology conditions and tempers the regulatory lag in biennial rate cases;
- A requirement that rates 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 2x for the ENW bonds because Bonneville must set rates 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;
- The broad service territory's large number of customers, which provides diversity and shields Bonneville from utility-specific credit risks; and
- The new long-term contracts between Bonneville and its customers, which we believe demonstrate the broad customer base's commitment to the Bonneville system.

We believe credit concerns include:

- Highly politicized and protracted biennial rate proceedings can delay rate relief constrain the benefits of autonomous ratemaking authority and financial flexibility.
- The new contracts do not establish rates. Rather, Bonneville will rely on future rate proceedings.
- Our view that Bonneville is exposed to volatile wholesale power markets because customer needs exceed FCRPS and ENW's output, which leads to market power purchases.
- Financial performance faces hydrology conditions that can affect revenues from surplus power sales, and operating expenses for purchases of replacement power. Similarly, in our view, if the economic downturn erodes market power prices, it could compromise revenues from surplus energy sales.
- Bonneville is projecting $4.9 billion of capital needs through 2014 that will lead to 6% more ENW debt and 4% combined Federal and ENW debt.

Bonneville markets electricity generated at 31 federal hydroelectric projects; ENW's nonfederal, nuclear, Columbia station; and several nonfederal small power plants. It also operates an extensive transmission system that facilitates power marketing activities that accounted for about one quarter of 2008's operating revenues. Its transmission system represents about 75% of the Pacific Northwest's transmission capacity.

About 80% of the power Bonneville sells is hydroelectric. The hydroelectric resources' performance hinges on hydrology conditions. Bonneville has also committed to pay for the output of ENW's single operating nuclear plant and support the financial commitments of three other nuclear plants that are unfinished or dormant. Nuclear electricity production accounts for 9%-12% of electricity sales. The lower end of this range reflects years with refueling outages.

Because only one plant, the Columbia station, supports the debt of operating and nonoperating nuclear plants, the resulting debt per kilowatt (kW) for the Columbia station's 1,157 megawatt (MW) capacity is very high, in our view, 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 its 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 station's reliable operations give Bonneville the ability to maintain very competitive wholesale rates for its customers. The current blended rate is 2.7 cents per kilowatt-hour (kWh) for FCRPS and ENW power. It was implemented in October 2006 and is slated to remain in effect through September 2009.

We believe coverage of ENW debt service was very strong in 2005-2008, equaling at least 4.3x. These coverage levels could decline, however, as Bonneville ends its deferrals of ENW debt service under its debt optimization program and nonfederal debt service rises. Bonneville's debt optimization program uses refinancings to defer maturing ENW principal and applies the deferred principal money to accelerate payment of Treasury obligations to create more capacity for Treasury borrowing under the capped maximum. Bonneville created the program before the federal stimulus package raised the cap by $3.25 billion to $7.7 billion in February 2009. The debt optimization program has not meaningfully altered the 1-to-1 ratio between nonfederal and federal debt. Preserving the close alignment between ENW and federal debt perpetuates the strong coverage cushion that federal debt provides to nonfederal obligations. Refunding ENW principal and applying refinancing proceeds to current debt service maturities bolsters ENW debt service coverage in the near-term.

Outlook

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

Strong Liquidity

Bonneville liquidity benefits from its customers' migration to a direct pay system that modifies the historical net billing arrangement. 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 it makes monthly payments to ENW to cover its debt service and O&M, leaving Bonneville with stronger liquidity. Direct payments to Bonneville have enhanced its liquidity.

Bonneville had unrestricted cash of more than $1.6 billion at fiscal year-end 2008, up markedly from $554 million at fiscal year-end 2005. The 2008 liquidity represented 79% of annual operating expenses, up from 2005's 31%. Bonneville can also defer federal debt maturities in the event of spikes in operating costs and liquidity pressures. The last deferral was in 1983.

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 took effect Oct. 1, 2006, Bonneville can increase rates by up to $300 million, or about 10%, each year to account for wholesale revenue shortfalls. The formulaic nature of the adjustment mechanism mitigates the risks of the lengthy review process. However, if costs rise by more than can the cost recovery adjustment can capture, Bonneville is likely to wait for its next biennial rate proceeding, which introduces regulatory lag that dilutes its ratemaking authority.

Bonneville has set its 2007-2009 rates 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. The probability of meeting just ENW debt service is higher than 97.5% annually, given the substantial amount of subordinated Treasury debt obligations and the legal right to reschedule treasury debt payments if needed.

Customers accepted a new contract that enables Bonneville to better manage its supply obligations and financial exposure to market costs for wholesale power. Bonneville customers will pay tiered rates after current contracts expire in 2011. Although future proceedings will set the precise rates, Bonneville and its customers have agreed on a rate structure in which a first tier would reflect the cost of FRCPS and ENW energy and limited supplemental market power. Under a second tier, customers will pay market prices for energy needs beyond FRCPS and ENW capabilities. The focus of the tiered rate structure is on equitable cost allocation among customers. The tiered rates will place the costs of securing additional energy and capacity resources to serve Bonneville's fastest-growing customers on their shoulder. This rate structure will shield slower growth customers from bearing socialized costs. It should be revenue neutral to Bonneville.

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. The outcome of these disputes should be revenue neutral for Bonneville, because its rates must cover all costs irrespective of allocation among different groups. Nevertheless, the legal wrangling is a concern, because 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 offset operating costs.

A large customer base, which includes 61 cooperative utilities, 17 federal agencies, 14 investor owned utilities, 48 power marketers 53 municipalities and 30 public utility districts, among others; and favorable project economics create strong demand for FCRPS and ENW generation, contribute to a secure revenue stream, and credit quality.

Bonneville Power Administration--Largest Sources Of Operating Revenues*

(%)	2008	2007	2006
Electricity sales to publicly owned utilities	50	56	49
Electricity sales to investor-owned utilities	15	9	7
Electricity sales outside of the Northwest region	20	14	19

Bonneville Power Administration--Largest Sources Of Operating Revenues* (cont.)			
Transmission system	19	21	23

*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 and is 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. 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 9%-12% of electricity sales. The lower end of this range reflects years with refueling outages.

ENW's $6 billion of debt is associated with only 1,157 MW of operating nuclear capacity. By comparison, $7.1 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 7x-8x 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 18, 2009)		
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Bonneville Pwr Admin elec rev rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Conservation and Renewable Energy Sys, Washington		
Bonneville Pwr Admin, Oregon		
Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest proj 1, Columbia Generating St, & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2006 A-D		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate ser F-1 ser 2008-F		
Long Term Rating	AA/A-1/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate ser F-2 ser 2008-F		
Long Term Rating	AA/A-1/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subseries F-1 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due		

Ratings Detail (As Of March 18, 2009) **(cont.)**		
07/01/20		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subser F-2 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due 07/01/2018		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station (wrap of insured) (MBIA & FSA) (SEC MKT) (MBIA of Illinois)		
Unenhanced Rating	NR(SPUR)	Upgraded
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
Long Term Rating	AA/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)		
Long Term Rating	AA/Stable	Upgraded
Bonneville Pwr Admin elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Bonneville Pwr Admin elec rev rfdg (Colu)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Washington Pub Pwr Supp Sys (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Lewis Cnty Pub Util Dist #1, Washington		
Bonneville Pwr Admin, Oregon		
Lewis Cnty Pub Util Dist #1 (Bonneville Pwr Admin) (Cowlitz Falls Hydroelec Proj) ser 1991 1993 2003		
Long Term Rating	AA/Stable	Upgraded
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	Upgraded
Lewis Cnty (Bonneville Pwr Admin) rev rfdg bnds (Cowlitz Falls Hydroelectric Proj) ser 2003 dtd 07/16/2003 due 10/01/2013-2024		

Ratings Detail (As Of March 18, 2009) **(cont.)**		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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	Upgraded
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANs		
Long Term Rating	AA/Stable	Upgraded
Tacoma, Washington		
Bonneville Pwr Admin, Oregon		
Tacoma (Bonneville Pwr Admin) (Pub Util Lt Div Conserv Sys Proj)		
Long Term Rating	AA/Stable	Upgraded

Many issues are enhanced by bond insurance.