

Summary:

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

Primary Credit Analyst:

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

Secondary Contact:

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

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

Credit Profile

US\$155. mil columbia generating sta elec rev bnds (Bonneville Pwr Admin) (Babs) ser 2010-D due 12/31/2041

<i>Long Term Rating</i>	AA/Stable	New
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Energy Northwest, Washington

Bonneville Pwr Admin, Oregon

Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to Energy Northwest (ENW), Wash.'s proposed \$155 million Columbia Generating Station electric revenue bonds, series 2010-D taxable Build America Bonds, issued for Bonneville Power Administration (BPA), Ore. We understand that the BPA must treat debt service on these bonds as an operating expense, together with debt service on \$6.3 billion of additional nonfederal debt. BPA pays nonfederal debt ahead of servicing \$6.8 billion of federal debt. Although the bonds are subordinate obligations, ENW covenanted to close the prior lien. Closed-lien, senior debt represents less than 8% of nonfederal debt.

At the same time, Standard & Poor's affirmed its 'AA' long-term and underlying ratings on several nonfederal debt obligations that BPA pays as operating expenses of its electric system. The outlook is stable.

BPA's nonfederal obligations include:

- \$5.7 billion of ENW revenue and refunding bonds;
- \$122.4 million of Public Utility District No. 1 of Lewis County, Wash., Cowlitz Falls Project bonds;
- \$119.6 million of Northwest Infrastructure Financing Corp. (Schultz-Wautoma project) bonds;
- \$22.8 million of Northern Wasco Public Utility District, Ore. (McNary Dam Project) bonds;
- \$13.7 million of conservation and renewable energy system bonds; and
- \$8.1 million of Tacoma, Wash., conservation system project bonds.

The 'AA' ratings on BPA and its nonfederal debt reflect the application of our government-related entities criteria (GRE) to BPA. We believe that BPA's stand-alone credit profile is 'aa-' and there is a "moderately high" likelihood that the U.S. government (AAA/Stable/A-1+) would provide extraordinary support to BPA in financial distress. We base the latter view on our opinion of the "strong" link between the BPA and the federal government as well as the

"important" federal role the BPA plays in the Pacific Northwest.

The GRE rating reflects our view of:

- BPA's status as a federal agency;
- The ongoing financial support the federal government provides to the agency through long-term loans and credit lines;
- Legislation that allows BPA to defer repayments of federal obligations during financial distress; and
- The utility's important contributions to the Pacific Northwest's economy, where it indirectly serves about 12 million electric customers in seven states, provides low-cost power that is critical to the region's economic health, and operates key transmission resources.

BPA's stand-alone credit profile reflects our assessment of the following factors:

- The ongoing support the federal government provides to BPA through loans and credit lines;
- Congress' \$3.25 billion (or 73%) increase in the agency's federal borrowing authority in 2009;
- The legislative mechanism that allows BPA to pay nonfederal debt as an operating expense ahead of federal debt service and to defer repaying federal obligations if it lacks the financial resources to meet all of its operating and debt obligations;
- A track record of strong, but declining, coverage of nonfederal debt service of at least 1.8x in the past five fiscal years;
- The utility's exceptionally broad and diverse service territory;
- The strong, efficient, and economical operations of the federal Columbia River Power System (FCRPS) hydroelectric power system foster strong demand for the output of the combined FCRPS hydroelectric projects and ENW nuclear production;
- Robust liquidity, which tempers the impacts of variable hydrology conditions on financial performance and mitigates credit risks inherent in biennial rate cases; and
- New 20-year contracts between BPA and its customers, demonstrate the customer base's commitment to the agency's system.

Although we believe debt service coverage of federal and nonfederal obligations was inadequate in 2009 and 2010 because poor hydrology conditions and low wholesale electric prices eroded surplus power sales revenues and financial performance, we also believe robust liquidity provided a cushion that tempered the financial implications of these pressures.

Standard & Poor's also incorporates the following exposures in the ratings:

- Financial performance hinges on hydrology conditions that can impair surplus power sales revenues and can require replacement power purchases that add to expenses. Due to poor hydrology, accrual debt service coverage of both nonfederal and federal debt was only 0.8x in both 2009 and 2010, and 0.9x on a cash basis. BPA's cash from operations was \$268 million in 2009 and \$370 million in 2010, representing the lowest points in the past five years' cash from operations.
- Highly politicized and protracted biennial rate proceedings can delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility.
- BPA's new customer contracts do not establish rates, so it will need to rely on future rate proceedings.

- Weak market power prices, like those of 2009 and 2010, compromised revenues from surplus energy sales and financial performance.
- BPA and ENW are both projecting substantial capital needs which could add to both organizations' debt.

The agency will use bond proceeds to finance work at the Columbia Generating Station.

BPA 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. Its transmission system represents about 75% of the Pacific Northwest's transmission capacity.

The agency treats debt service on its \$6.3 billion of nonfederal debt as an operating expense. It pays nonfederal debt ahead of debt service on nearly \$6.8 billion of federal debt. Federal debt includes bonds issued to the U.S. Treasury and federal appropriations that BPA must repay with interest. The nearly 1-to-1 ratio of nonfederal-to-federal debt facilitates sound debt service coverage of the nonfederal bonds so long as rates meet all financial obligations.

BPA can defer its federal debt payments if after paying operating expenses, which include nonfederal debt service, it cannot meet its total obligations. However, in the first instance, the utility is legally required to establish rates that it projects will cover all operating expenses, and federal and nonfederal obligations. Moreover, interest accrues on federal debt repayments that BPA defers.

In the event of financial shortfalls that exceed defined thresholds, the utility has a cost-recovery rate-adjustment mechanism available for limited adjustments without initiating protracted rate proceedings. BPA revisits base rates every two years.

About 80% of the power the utility sells is hydroelectric. Its hydroelectric resources' performance hinges on hydrology conditions; they were 18% below the 30-year historical average in 2009, and 2010's flows were about 6% lower than 2009's.

BPA has also committed to pay for the output of ENW's single operating nuclear plant and the debt of two other unfinished nuclear plants. Nuclear electricity production accounts for about 9%-12% of electricity sales. The lower end of this range reflects years with refueling outages.

The Columbia Generating Station nuclear plant had five unplanned shutdowns in 2009. Although performance improved in 2010, we still view 2009's repeated outages as creating the potential for higher costs at a utility that only revisits base rates every two years. Nevertheless, BPA's unconditional obligation to service ENW's debt mitigates some of our concerns.

Because one nuclear plant, Columbia, also supports the debt of nonoperating nuclear plants, the resulting debt per kilowatt (kW) for the station's 1,157 megawatt capacity is very high, in our view, at nearly \$5,700 per kW. The debt burden would be lower but for the BPA-initiated debt optimization program. This program reduced the agency's overall debt obligations by accelerating some federal debt while deferring ENW debt for payment in later periods.

We believe the combination of low-cost FCRPS hydroelectric production and the nuclear plant's generally sound operations let BPA maintain very competitive wholesale rates for its customers. The current rate for preference customers is about 2.8 cents per kilowatt-hour for FCRPS and ENW power. BPA implemented this level in October 2009 and projects these rates will remain in effect through September 2011, even though it faces poor hydrology

conditions.

We believe accrual coverage of nonfederal debt service was very strong in 2005-2008, equaling at least 4.3x. In 2009 and 2010, coverage of nonfederal debt was markedly weaker, at 2.2x and 1.8x. Nonfederal debt service coverage in 2009 and 2010 reflected poor hydrology conditions and weak natural gas prices that eroded wholesale market prices for the surplus electricity available for sale.

Although accrual combined federal and nonfederal debt service coverage fell to what we consider to be an inadequate 0.8x in 2009 and 2010, more than \$1.1 billion of unrestricted cash and investments provided a sound cushion pending the utility's next rate case and rate adjustments. Fiscal year-end 2010 unrestricted cash and investments represented more than five months' operating expenses.

In February 2009, federal stimulus legislation raised BPA's debt ceiling by \$3.25 billion to \$7.70 billion. As the agency adds more federal debt and nonfederal debt amortizes, the budgetary directive that it cover all of its debt and expense obligations should translate into stronger coverage of nonfederal obligations.

Outlook

The stable outlook reflects our view of the cushion that the U.S. Treasury debt provides to the ENW and other nonfederal debt, as well as a lengthy track record of timely Treasury payments. The outlook also reflects our assessment of the availability of the cost recovery adjustment clause and strong liquidity as buffers against BPA's exposure to hydrology conditions and wholesale power markets. Exposure to hydrology conditions and wholesale markets constrains upside rating potential and could potentially erode credit quality, particularly if cash coverage is below 1.0x again and the liquidity cushion suffers meaningfully.

Related Criteria And Research

- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- USPF Criteria: USPF Criteria: Electric Utility Ratings, June 15, 2007

Ratings Detail (As Of December 9, 2010)		
Conservation and Renewable Energy Sys, Washington		
Bonneville Pwr Admin, Oregon		
Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj		
Long Term Rating	AA/Stable	Affirmed
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	Affirmed
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	Affirmed
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 07/01/20		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of December 9, 2010) (cont.)		
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	Affirmed
Energy Northwest (Bonneville Pwr Admin) rfdg rev bnds (Bonneville Pwr Admin-Nuclear Proj #1 & #3) ser 1993C dtd 09/01/1993 due 07/01/1996 1999 2002-20		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
Long Term Rating	AA/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (MBIA) (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
Long Term Rating	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		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Colu)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
Unenhanced Rating	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)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lewis Cnty Pub Util Dist #1, 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 (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		

Ratings Detail (As Of December 9, 2010) (cont.)		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANS		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Tacoma, Washington		
Bonneville Pwr Admin, Oregon		
Tacoma (Bonneville Pwr Admin) (Pub Util Lt Div Conserv Sys Proj)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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