MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNED PROVISIONAL (P)Aaa RATING TO ENERGY NORTHWEST'S $676 MILLION OF COLUMBIA STATION, PROJECT 1, PROJECT 3 REVENUE BONDS. THESE BONDS AND BPA'S Aaa ISSUER AND RELATED RATINGS ARE PLACED UNDER REVIEW FOR POSSIBLE DOWNGRADE

Global Credit Research - 01 Jun 2011

Approximately $6.7 billion of debt affected

Bonneville Power Administration, WA
Electric Utilities
WA

Moody's Rating

ISSUE		RATING
Electric Revenue Refunding Bonds Project 1, Series 2012-A (Delayed Delivery)		(P)Aaa
Sale Amount	$157,000,000	
Expected Sale Date	06/16/11	
Rating Description	Revenue	
Columbia Generating Station Electric Revenue Refunding Bonds, Series 2012-A (Delayed Delivery)		(P)Aaa
Sale Amount	$445,000,000	
Expected Sale Date	06/16/11	
Rating Description	Revenue	
Electric Revenue Refunding Bonds Project 3 , Series 2012-A (Delayed Delivery)		(P)Aaa
Sale Amount	$69,000,000	
Expected Sale Date	06/16/11	
Rating Description	Revenue	
Columbia Generating Station Electric Revenue Bonds, Series 2011-C (Taxable)		Aaa
Sale Amount	$5,000,000	
Expected Sale Date	06/16/11	
Rating Description	Revenue	

Opinion

NEW YORK, Jun 1, 2011 -- Moody's has assigned the provisional credit rating of (P)Aaa to Energy Northwest's sale of approximately $157 million of Project 1 Electric Revenue Refunding Bonds, Series 2012-A (Delayed Delivery), $445 million Columbia Generating Station Electric Revenue Refunding Bonds, Series 2012-A (Delayed Delivery), $69 million Project 3 Electric Revenue Refunding Bonds, Series 2012-A (Delayed Delivery) and also assigned Aaa ratings to $5 million Columbia Generating Station Electric Revenue Bonds, Series 2011-C (Taxable). Moody's has also placed under review for possible downgrade the ratings on the bonds for Project No. 1, Columbia Generating Station, Project No. 3, Bonneville Power Administration's (BPA) issuer rating and BPA's related ratings.

The bonds are expected to price in June 2011 and the provisional rating designation on the delayed delivery bonds is expected to be removed when the bonds settle on or about April 3, 2012. The final ratings are expected to match Energy Northwest's Project 1, Columbia Generating Station and Project 3 bond ratings at that time. The $5 million in taxable bonds are expected to settle on June 23, 2011. The total issuance amount could be lower depending on refunding opportunities.

The Aaa rating on Energy Northwest's revenue bonds is rooted in the legal arrangements, principally in the net billing agreements between Energy Northwest and Bonneville Power Administration (BPA) that secure the bonds and obligates BPA to pay for debt service on the Project No 1, Columbia Generating and Project No 3 revenue bonds.

The ratings under review for possible downgrade reflects BPA's sustained decline in its financial reserves available for risk and debt service cover ratios, BPA's proposed rate plan for FY 2012-2013, low market prices and extended period of below average hydrology on a historical basis. Driven by poor hydrology, low wholesale market prices and rising non-federal debt service, total reserves available for risk dropped a cumulative 34% over a two year period ending FY 2010 while non-federal debt service coverage dropped to around 1.9 times compared to 4.4 times average from 2004 to 2008. While the above average hydrology for FY 2011 will likely result in BPA performing above its budget, Moody's does not expect a major improvement in reserves and non-federal debt service coverage ratios though the decline will be less than expected. Moody's recognizes that BPA effectively assumes average hydrology in their forecast while BPA's hydro generation has experienced below average levels for the past 10 of the 12 years. Additionally, BPA's secondary sales faces challenging market conditions over the next several years of low wholesale prices, sustained lower demand and increasing wind generation during BPA's peak surplus energy sales season. The resolution of the review for possible downgrade will likely occur once BPA's rate plan is approved in Q3 2011.

To a lesser extent, the review for possible downgrade also reflects a small uncertainty regarding BPA's ability to draw on its US Treasury lines of credit since BPA expects to make draws between now at September 2011 and the US government has reached it debt ceiling on May 16, 2011.

That said, Moody's also recognizes that BPA was able to draw on its US Treasury lines on May 19, 2011 and significant internal liquidity exists at BPA.

Legal Security:

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 bonds are not general obligations of the United States of America and are not secured by the full faith and credit of the United States of America. The BPA has made a clear and tested commitment to support the payment of the Energy Northwest Revenue bonds 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 nuclear generation units that were expected to be constructed) the net billing agreements are still in force and debt service on those project bonds are being paid.

Use of Bond Proceeds:

The proceeds of the offering is expected to be used to refunding existing debt at Project 1, Columbia Generating Station and Project 3, pay down drawn amounts under an anticipated bank line of credit and pay transaction fees. Currently, Energy Northwest expects to obtain a $150.2 million, 1-year bank line of credit to potentially make payments on outstanding bonds until the settlement of the Columbia Generating Station delayed delivery bonds.

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.

Credit Fundamentals

Strengths

* BPA benefits from U.S. government support including limited direct borrowing authority with the US Treasury 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

* BPA's extensive hydroelectric system strongly anchors its firm competitive wholesale rate position relative to market based prices over the long term

*BPA owns and operates roughly 75% of the bulk transmission system and markets low cost hydroelectric power amounting to roughly 35% of the region's power, which highlights BPA's important role in the northwest region of the U.S.

*BPA sells a majority of its power under an 18-year power supply contracts with creditworthy public power entities and derives roughly 25% of revenues from stable transmission revenues

Challenges

*Significant exposure to hydrology risk and wholesale power markets contributes to cash flow volatility

*Extensive ratemaking process creates potential complications in timely rate recovery

*Conflicting uses of Columbia River, (flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection and power generation), can hinder the ability of the system to meet load from federal system and contribute to substantial additional costs

*Development of wind energy is likely to negatively pressure power prices in the region and has presented complicated transmission and load balancing issues

*Columbia Generating Station is likely to face increased costs due to the nuclear accident in Fukushima, Japan

*BPA's historically strong liquidity has declined substantially and is expected to decline further through FY 2013

*BPA's financial metrics over the last two years have declined

Please see forthcoming high profile report on Energy Northwest and BPA for detailed analysis.

Outlook

The review for possible downgrade reflects BPA's sustained decline in its financial reserves available for risk and debt service cover ratios, BPA's proposed rate plan for FY 2012-2013 and extended period of below average hydrology prior over the last ten out of twelve years. To a lesser extent, the review for possible downgrade also reflects a small uncertainty regarding BPA's ability to draw on its US Treasury lines of credit. The resolution of the review for possible downgrade will likely occur once BPA's rate plan is approved in Q3 2011.

What could move the rating - DOWN

The rating is likely to be lowered if BPA continues to experience declines in its reserves available for risk, if BPA does not execute policies to ensure strong internal reserve levels, if BPA does not implement enhanced risk management policies that fully mitigates hydrology and market price risk, if there are federal constraints placed on BPA, if BPA is unable to draw on its US Treasury lines of credit for an extended period or if BPA's net billing agreement obligation is violated.

What could move the rating - UP

The ratings could stabilize if BPA executes policies to ensure strong internal reserve levels or implements enhanced risk management policies that fully mitigates hydrology and market price risk.

KEY STATISTICS:

Aggregate BPA Power Capacity, 2011 Operating Year at median water conditions: 10,756 average megawatts

Non-Federal Debt Service Coverage Ratio, 2010 (reported): 2.2 times

Available BPA Reserves, 2010 (encumbered and unencumbered): $ 1.11 billion

Total Reserves Available for Risk, 2010: $839.6 million

BPA Payment to U.S. Treasury, 2010: $867 million

Authorized Line of Credit With U.S. Treasury: $7.7 billion

BPA Full-Requirement Power Rate, 2011: $29/MWh

Columbia Generating Station Nameplate Capacity: 1,150 MW

Project No.1, FY 2010: $1.74 billion

Columbia Generating Station FY 2010: $2.33 billion

Project No.3 FY 2010: $1.64 billion

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The last rating action was on February 25, 2011 when Moody's rating committee assigned Aaa ratings to revenue bonds issued by Energy Northwest and affirmed BPA's Aaa issuer rating with a negative outlook.

The principal methodologies used in rating Energy Northwest and BPA are the U.S. Public Power Utilities Methodology, published April 2008 and U.S. Municipal Joint Power Agencies Methodology published in September 2006.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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