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Ratings On Energy Northwest, WA And Bonneville Power Administration, OR Lowered To 'AA-/Stable'

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NEW YORK (Standard & Poor's) Aug. 8, 2011--Standard & Poor's Ratings Services lowered its rating on Energy Northwest (ENW), Wash.'s revenue bonds and the several nonfederal debt obligations that the Bonneville Power Administration (BPA), Ore., pays as operating expenses of its electric system to 'AA-' from 'AA'. The outlook is stable. The rating action reflects the interplay between our rating on the United States of America (AA+/Negative/A-1+) and BPA's 'aa-' standalone credit profile. Because the United States government's rating is now 'AA+,' and because we believe that there is a "moderately high" likelihood that the U.S. government would provide extraordinary support to BPA under our government-related entities criteria, we no longer provide ratings uplift to BPA's 'aa-' standalone credit profile.

BPA has no direct capital markets debt, but has entered agreements that we understand require it to treat debt service on $6.2 billion of nonfederal debt as an operating expense ahead of servicing $6.9 billion of federal debt. Although ENW's bonds are subordinate ENW obligations, ENW covenanted to close the prior lien. Closed-lien, senior debt represents less than 8% of nonfederal debt.

BPA's nonfederal obligations include:

- $5.9 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 stable outlook reflects our view that Bonneville's standalone credit profile could withstand even the possibility of some further negative rating actions on the federal government's sovereign ratings, if such actions were to occur. Also, we think the nearly 8% average rate increases established in BPA's recently concluded rate proceeding covering the two fiscal years beginning in October 2011, will help address recent years' erosion of debt service coverage and liquidity due to weak hydrology conditions and soft wholesale power markets. We expect that the rating could be lowered if BPA continues producing cash basis coverage of federal and nonfederal obligations below 1x, as it did in 2009 and 2010, and its robust liquidity cushion continues eroding.

RELATED CRITERIA AND RESEARCH
- USPF Criteria: Electric Utility Ratings, June 15, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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