MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO ENERGY NORTHWEST'S $380 MILLION IN COLUMBIA STATION AND PROJECT 3 REVENUE BONDS. BPA'S Aaa ISSUER AND RELATED RATINGS HAVE BEEN AFFIRMED. THE RATING OUTLOOKS REMAIN NEGATIVE.

Global Credit Research - 25 Feb 2011

Approximately $6.24 billion of debt affected

Electric Utilities
WA

Moody's Rating

ISSUE		RATING
Columbia Generating Station Electric Revenue Refunding Bonds, Series 2011-A		Aaa
Sale Amount	$250,000,000	
Expected Sale Date	03/08/11	
Rating Description	Revenue	
Project 3 Electric Revenue Refunding Bonds, Series 2011-A		Aaa
Sale Amount	$95,000,000	
Expected Sale Date	03/08/11	
Rating Description	Revenue	
Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2011-B (Taxable)		Aaa
Sale Amount	$34,000,000	
Expected Sale Date	03/08/11	
Rating Description	Revenue	

Moody's Outlook Negative

Opinion

NEW YORK, Feb 25, 2011 -- Moody's has assigned the credit rating of Aaa to Energy Northwest's sale of $250 million of Columbia Generating Station Electric Revenue Refunding Bonds, Series 2011-A, $95 million of Project 3 Electric Revenue Refunding Bonds, Series 2011-A and $34 million of Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2011-B (Taxable). The bonds are expected to price in March 2011. Moody's has also affirmed the Aaa rating on the outstanding Project No. 1, Columbia Generating Station, Project No. 3 revenues bonds. Additionally, Moody's has affirmed the Aaa issuer and related rating on the Bonneville Power Administration (BPA). BPA's related ratings include revenue bonds under lease or 'take or pay' agreements. These BPA related ratings are Conservation and Renewable Energy System Conservation Project Revenue Bonds; Cowlitz Falls Hydroelectric Project Revenue Bonds (Lewis County Public Utility District 1); McNary Dam Fishway HydroElectric Project Revenue Bonds (Northern Wasco County Peoples Utility District); Northwest Infrastructure Financing Corp Transmission Facilities Lease Revenue Bonds; Conservation System Project Revenue Bonds (City of Tacoma). The rating outlook remains negative for both Energy Northwest's Project No 1, Columbia Generating and Project No 3 revenue bonds and BPA's issuer and related ratings.

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 negative outlook continues to reflect 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, exposure to wholesale market prices for roughly 20% of revenues in a typical year and extended period of below average hydrology. 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. As of January 2011, BPA expects total financial reserves to drop from $1.11 billion at FY 2010 to a range between $816 million and $1 billion by end of FY 2011. BPA effectively assumes average hydrology in their forecast and 2011 forecasted hydrology as of February 2011 by the Northwest River Forecast Center is around the historical 30 year average. That said, BPA's hydro generation has experienced below average levels for the past 10 of the 11 years. Additionally, BPA's secondary sales face 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. As of February 2011, BPA expects lower than expected wholesale energy prices for its secondary sales will lead to lower than expected net revenues for its Power Services business for FY 2011.

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 are expected to be used mostly for refunding and for paying transaction costs. 'New money' proceeds are expected to total approximate $10 million, which will be used to fund a portion of the upcoming capital expenditures at the 1,130 MW Columbia Generating facility.

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's important role in the northwest region of the U.S. 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

"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 its stable transmission business

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 has presented complicated transmission and load balancing issues

"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 high profile report dated December 2010 on Energy Northwest and BPA for detailed analysis.

Outlook

The negative outlook 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, extended period of below average hydrology and low wholesale price environment.

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's current rate proposal is approved, if there are federal constraints placed on BPA or if BPA's net billing agreement obligation is violated.

What could move the rating - UP

The ratings could stabilize if BPA executes direct policies to ensure strong internal reserve levels or implements enhanced risk management policies that fully mitigate 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: $864 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: 1,130 MW

Project No.1: $1.74 billion

Columbia Generating Station: $2.48 billion

Project No.3: $1.64 billion

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The last rating action was on December 7, 2010 when Moody's rating committee assigned Aaa ratings to revenue bonds issued by Energy Northwest, affirmed BPA's Aaa issuer rating and changed the rating outlooks to negative.

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.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

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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