FitchRatings

FITCH RATES ENERGY NORTHWEST, WA'S ELECTRIC REVENUE AND REFUNDING BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-San Francisco-14 March 2012: Fitch Ratings assigns the following ratings to bonds issued by Energy Northwest, WA and secured by payments from the Bonneville Power Administration:

--Approximately $41 million Project 1 electric revenue refunding bonds, series 2012-B 'AA';
--Approximately $24 million Project 1 electric revenue refunding bonds (taxable), series 2012-C 'AA';
--Approximately $29 million Project 3 electric revenue refunding bonds, series 2012-B 'AA';
--Approximately $62 million Project 3 electric revenue refunding bonds, series 2012-C 'AA'.

The 2012B and 2012C bonds are expected to price the week of March 19, 2012. At the same time, Energy Northwest will deliver $664.5 million in series 2012A bonds that were priced in 2011 on a forward delivery basis. Proceeds from the series 2012A bonds will restructure debt service in fiscals 2012-2015 out to later years in order to provide Bonneville with some budgetary relief. Proceeds from the series 2012B & 2012C bonds will be used to refund maturities for savings in the fiscal years 2015-2017. None of the bonds have a debt service reserve fund.

Fitch also affirms the following outstanding ratings on debt issued by Energy Northwest and secured by payments from the Bonneville Power Administration:

--$1.57 billion Project 1 revenue bonds at 'AA';
--$2.49 billion Columbia Generating Station revenue bonds at 'AA';
--$1.50 billion Project 3 revenue bonds at 'AA';

Fitch also affirms its implied non-federal revenue bond rating on Bonneville Power Administration at 'AA'.

The Rating Outlook is Stable.

SECURITY
The Energy Northwest (ENW) bonds are secured by a payment obligation from the Bonneville Power Administration (BPA). BPA's payments to Energy Northwest are made as an operating expense and are paid prior to BPA's payments to the U.S. Treasury (approximately $7.3 billion in Treasury obligations outstanding).

KEY RATING DRIVERS

COMPETITIVE WHOLESALE SUPPLIER: BPA has a competitive resource portfolio of over 8,500 MW that provides wholesale electricity (primarily low-cost hydropower) and transmission access to a population of more than 12 million people in the Pacific Northwest.

COST BASED LONG-TERM CONTRACTS: Bonneville sells its resources through long-term take-and-pay contracts through 2028 that recover cost of service from its 135 preference customers. New contracts went into effect on Oct. 1, 2011 that provide less operational and price risk to Bonneville than previous contracts.

TIMELY RATE SETTING: BPA has established a two-year rate-setting cycle, with mid-period cost adjustments allowed. Bonneville also employees an annual cost recovery adjustment clause (CRAC), which adds further rate setting flexibility.

FINANCIAL PRESSURE: BPA's financial performance fluctuates as a result of hydrological conditions and market prices, with secondary (surplus) sales budgeted at 22% of total revenues. BPA reduced this reliance in the 2012-2013 period to 14%, which should reduce revenue variability.

LOW RESERVES: Financial reserves have declined in the past three years due to considerably lower than projected secondary sales and are at very low levels. Power system reserves totaled $129 million as of Dec. 31, 2011. However, this concern is somewhat mitigated by various financial and rating setting options available to BPA, along with a $750 million federal line of credit, which provides additional liquidity support.

LARGE CAPITAL NEEDS: Recent increases from the federal government in BPA borrowing capacity for both long-term and short-term needs should fund a portion of Bonneville's capital needs. A regional discussion with Bonneville's stakeholders is ongoing about the scope and pace of capital spending and the identification of alternative funding sources to fund remaining needs.

CREDIT PROFILE

VARIABILITY IN REVENUES

BPA faces financial challenges related to lower than average hydrological conditions, along with sustained low electricity market prices for its secondary sales reflecting overall weakened economic conditions. BPA's rate setting takes into account anticipated secondary sales. Secondary sales revenues are derived from the portion of the federal system not allocated under preference contracts. Cost-based rates for wholesale customers are established using extensive modeling of potential hydrological conditions and forecasted market prices. In a low water year, these revenues may likely be lower than projected, requiring the use of cash reserves to replace lost revenues and, eventually, a rate adjustment to customers.

PRESSURED RECENT FINANCIAL PERFORMANCE

Financial performance in fiscal 2010 was low due to the historically rare combination of very dry water conditions and depressed wholesale electricity prices. Revenues fell well below budgeted revenues and produced negative operating cash flow that resulted in a spend-down in cash reserves. Total coverage of all obligations, including the repayment of federal debt, was below 1.0 times (x) at 0.7x. Unencumbered cash reserves for the power supply business declined to $233 million from $516 million.

Performance in fiscal 2011 was slightly better than fiscal 2010 due to higher streamflows which led to higher secondary energy sales even though wholesale market prices remained low. Power supply reserves for risk ended the year at $215 million (9.3% of expenditures). However, $75 million of this amount is reserved for Residential Exchange Program repayment. Reserves are assumed to stay in this range through the next rate case period (fiscal 2012-fiscal 2013).

NEW CONTRACTS OFFER LOWER RISK PROFILE TO BONNEVILLE

Bonneville and its customers began operating under new contracts at the beginning of fiscal 2012 that extend through 2028. The new contracts limit risk to Bonneville by placing the cost risk of meeting load growth requirements of the region onto customers. Bonneville has a more limited role in distributing its federal and non-federal power resources at cost based rates. The new contracts place risk of a decline in energy output of the resources onto the customers as well. The new contracts resulted from a decade-long regional process between Bonneville and its customers to define Bonneville's role in the region.

TWO-YEAR RATE SETTING

Under the new contract structure, Bonneville establishes rates for two-year periods, which is substantially shorter than its previous five-year rate periods. Bonneville implemented new rates for the period Oct. 1, 2011 - Sept. 30, 2013 (Fiscal 2012-Fiscal 2013). Power rates increased by 7.8% to $28.90 per megawatt hour (MWh) for the Tier 1 rate, which is used to serve the majority of

BPA's customers.

The two-year rate case does not prevent Bonneville from adjusting rates in the interim period. The principal mechanism for rate adjustments during the rate period is the CRAC. The adjustment triggers automatically based on a variety of factors that includes forecasted year end net revenues or to recovery any borrowing that may be done from Treasury for liquidity purposes.

For additional information on Energy Northwest and Bonneville Power Administration, please see Fitch's report which is expected to be released during the week of March 19, 2012.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', June 20, 2011;
--'Public Power Rating Guidelines', March 28, 2011;
--'Criteria for Assigning Short-Term Ratings Based on Internal Liquidity', dated June 20, 2011;
--'US Public Power Peer Study', June 20, 2011.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665815
Criteria for Assigning Short-Term Ratings Based on Internal Liquidity
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637129
U.S. Public Power Peer Study — June 2011
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=636311