MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to BPA backed lease revenue bonds issued by Port of Morrow (OR). Rating outlook is stable.

Global Credit Research - 09 Jul 2012

Approximately $6.3 billion of debt affected

BONNEVILLE POWER ADMINISTRATION, WA
Electric Generation
WA

Moody's Rating

ISSUE		**RATING**
Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 1) Series 2012		Aa1
Sale Amount	$95,000,000	
Expected Sale Date	07/10/12	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, July 09, 2012 --Moody's has assigned Aa1 ratings to Port of Morrow's $90 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 1) Series 2012. These bonds are supported by an unconditional lease payment obligation by Bonneville Power Administration (BPA, Aa1/stable) and thus are rated the same as BPA's other related obligations. The lease bonds are non-recourse to the Port of Morrow (NR). Moody's also affirmed BPA's issuer rating and BPA related ratings comprising of Project No. 1, Columbia Generating Station, Project No. 3, Conservation and Renewable Energy System Conservation Project, Cowlitz Falls Hydroelectric Project;, Northwest Infrastructure Financing Corp Transmission Facilities Lease, and Conservation System Project Revenue Bonds. The rating outlook is stable.

Rating Rationale

BPA's Aa1 issuer rating is supported by U.S. government support features including a $7.7 billion borrowing authority with the US Treasury and the legal ability to defer its annual US Treasury repayment (if necessary). Other factors underpinning the rating are BPA's importance to the US Northwest region, its strong underlying hydro and transmission assets, its competitive power costs and its 17-year power supply contracts with creditworthy public power entities for a large majority of power sales.

BPA strengths are offset by significant hydrology and wholesale power market exposure, environmental burdens and conflicting demands on the Columbia River, a lengthy ratemaking process compared to typical municipal public power entities, a sizeable debt burden due to nuclear projects and pressure on financial reserves and financial metrics. Growing total debt and potential full utilization of the US treasury line by 2016 represent longer term challenges.

Hydrology conditions in the Pacific Northwest and wholesale power prices represent the biggest drivers of volatility to BPA's financial performance. In recent history, these factors, both of which are outside of BPA's control, have contributed heavily to an almost a $1 billion swing in net revenues between the best (2006) and most challenging years (2001). BPA's historically strong internal liquidity was seen as a major risk mitigant and the substantial decline in internal liquidity was a major driver of the rating downgrade to Aa1 from Aaa in August 2011. For fiscal year 2012, regional hydrology is estimated at substantially above average though market prices are low. According to BPA's May 2012 monthly financial report, lower net revenue for the BPA's power services segment is expected to result in $21 million in lower total revenue than compared to its rate case, which is an improvement from its February 2012 expectation of approximately $80 million below the rate case.

The Aa1 ratings on BPA's related ratings including the Port of Morrow lease revenue bonds are based on BPA's contractual obligation to pay under long term agreements.

The stable outlook reflects BPA's unconditional and absolute obligation to pay. BPA's stable outlook incorporates BPA's baseline expectations according to its FY 2012-13 rate case and BPA's near-term ability to withstand difficult market price and hydrology conditions.

BPA's rating could improve over the long term if BPA is able to fully mitigate hydrology and wholesale price risk, if BPA implements policies to ensure strong internal risk reserves resulting in at least 250 days cash on hand on a sustained basis, and if the US Government's rating stabilizes at Aaa. BPA related ratings could be upgraded if BPA is upgraded.

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US government support diminishes, federal constraints are placed on BPA or if the US government ratings are lowered below Aa1. Additionally, BPA related ratings could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

Detailed Credit Analysis

Background on BPA

BPA was created in 1937 by an act of the US Congress and is now one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for federally owned generation and electric transmission assets in the Pacific Northwest spanning all or parts of eight states: Washington, Oregon, Idaho, Montana, Wyoming, Utah, California and Nevada. The Army Corps of Engineers and the Bureau of Reclamation operate the hydro projects. Many of the statutory authorities of BPA are vested with the Secretary of Energy, who appoints and acts through the BPA administrator.

BPA operations are divided between Power Services and Transmission Services though all cash flows ultimately flow into one account (BPA Fund) at the US Treasury. The Power Services business is responsible for the revenue and costs of BPA's generation resources and represents the largest segment at 73% of BPA's revenues in FY 2011. Transmission Services is responsible for the revenue and costs of BPA's electric transmission system and generates the remainder of BPA's revenues. BPA's power rates are subject to approval by the Federal Energy Regulatory Commission (FERC) to ensure full-cost recovery. Federal law requires BPA to meet specified energy requirements in the Northwest region. BPA is also required to implement conservation measures and to provide transmission services. The federal hydro projects also serve numerous purposes, including irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, and power generation. The amount of power produced by the federal hydro generation units varies with annual precipitation and other weather conditions.

Legal Security:

Bond security is the pledge of the lease agreement between the Port of Morrow and BPA to lease certain transmission lines and related equipment. BPA's obligation to make lease payments is absolute and unconditional and is payable without any set-off or counterclaim, regardless of whether or not the Project is operating or operable. The lease is co-terminus with the bonds and the lease payments have been structured to match debt service payments including the lease bond's bullet maturity expected in 2042. The bond trustee has the right to receive all lease payments and BPA will directly make the lease payments to the bond trustee. There is no debt service reserve.

Use of Bond Proceeds:

The proceeds of the offering is expected to be used to refinance all of the existing debt at Northwest Infrastructure Financing Corporation II ("NIFC II") and pay transaction costs.

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 US Treasury repayment if necessary to meet non-Federal debt service commitments (such as Energy Northwest nuclear bonds). 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, a key strategy to ensure timely revenue bond debt service payment

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

- BPA owns and operates 75% of the bulk transmission system in the US Northwest and markets low cost hydroelectric power amounting to 30% of the region's power

- BPA sells a majority of its power under 17-year power supply contracts with creditworthy public power entities and derives roughly a quarter of revenues from a stable electric transmission business

Challenges

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

- Long and complex ratemaking process creates potential complications in timely rate recovery

- Conflicting uses of the 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 and contribute to substantial additional costs

- Energy Northwest's nuclear projects are a sizeable debt burden

- Large debt funded capital program reduces financial flexibility and diminishes US Treasury line availability over the longer term

- Liquidity and financial metrics continue to be pressured by low wholesale prices and volatile hydrology.

- Development of wind energy is likely to exert downward pressure on power prices in the region and has created transmission and load balancing issues

Please see Moody's March 2012 credit analysis report on BPA for further detailed analysis.

Outlook

The stable outlook reflects BPA's unconditional and absolute obligation to pay. BPA's stable outlook incorporates BPA's baseline expectations according to its FY 2012-13 rate case and BPA's near-term ability to withstand difficult market price and hydrology conditions.

What could move the rating - DOWN

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US government support diminishes, federal constraints are placed on BPA or if the US government ratings are lowered below Aa1. Additionally, BPA related ratings could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

What could move the rating - UP

BPA's rating could improve over the long term if BPA is able to fully mitigate hydrology and wholesale price risk, if BPA implements policies to ensure strong internal risk reserves resulting in at least 250 days cash on hand on a sustained basis, and if the US Government's rating stabilizes at Aaa. BPA related ratings could be upgraded if BPA is upgraded.

KEY STATISTICS:

Aggregate BPA Power Capacity, 2012 Operating Year at median water conditions: 10,813 average megawatts

Non-Federal Debt Service Coverage Ratio, 2011 (reported): 2.5 times

Non-Federal Debt Service Coverage Ratio, 2011 (Moody's): 2.2 times

Total Debt Service Coverage Ratio, 2011 (Moody's): 1.0 times

Available BPA Reserves, 2011 (encumbered and unencumbered): $ 1.01 billion

Total Reserves Available for Risk, 2011: $747 million

BPA Payment to U.S. Treasury, 2011: $748 million

Authorized Line of Credit With U.S. Treasury, 2011: $7.7 billion ($2.94 billion drawn)

BPA Full-Requirement Power Rate, 2012: $29/MWh

Columbia Generating Station Nameplate Capacity: 1,130 MW

Non-federal debt, FY 2011: $6.3 billion

Federal debt, FY 2010: $7.3 billion

Public Power Rating Methodology Factors-Bonneville Power Administration

1 Cost Recovery Framework (25% weight): (Aa)

2. Willingness to Recover Costs and Maintain Sound Financial Metrics (25% weight): (A)

3. Management of Generation Risk (10% weight): (Aa)

4. Rate Competitiveness (10% weight): (A)

5. Financial Strength:

Sub factor a) Adjusted Days Liquidity on Hand (10% weight): (168) (Aa)

Sub factor b) Debt Ratio (10% weight): (60% [non-federal only]-A) / (130% [total debt]-Ba)

Sub factor c) Adjusted Debt Service Coverage (10% weight): (2.1x [non-federal only]-Aa) / (0.9x [total debt]-Ba)

Grid Indicated Rating: Aa3 [non-federal only] / A2 [total debt]

Notching:

Lack of debt service reserve: -0.5

Other (regional importance, borrowing line, deferral ability[total debt only]): +2 [non-federal only] / +3 [total debt]

Scorecard Indicated Rating: Aa2 [non-federal only] / Aa2 [total debt]

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The last rating action was on March 15, 2012 when Moody's affirmed BPA and BPA related ratings at Aa1 with a stable outlook.

The principal methodology used in this rating was U.S. Public Power Electric Utilities With Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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