

March 14, 2012

Summary:

Energy Northwest, Washington Bonneville Power Administration, Oregon; Wholesale Electric

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Credit Profile

US\$61.815 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3 Taxable) ser 2012-C due 07/01/2016		
<i>Long Term Rating</i>	AA-/Stable	New
US\$40.675 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2012-B due 07/01/2017		
<i>Long Term Rating</i>	AA-/Stable	New
US\$29.135 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2012-B due 07/01/2017		
<i>Long Term Rating</i>	AA-/Stable	New
US\$24.17 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1 Taxable) ser 2012-C due 07/01/2015		
<i>Long Term Rating</i>	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to Energy Northwest (ENW), Wash.'s proposed \$155.8 million of revenue refunding bonds consisting, of \$40.7 million project 1 electric revenue refunding bonds, series 2012B, \$29.1 million project 3 electric revenue refunding bonds series 2012-B, \$24.2 million project 1 electric revenue refunding bonds, series 2012-C, and \$61.8 project 3 electric revenue refunding bonds, series 2012-C. At the same time, Standard & Poor's affirmed its 'AA-' rating on parity subordinate ENW obligations and the several nonfederal obligations that the Bonneville Power Administration (BPA), Ore., pays as operating expenses of its electric system. Standard & Poor's also affirmed its 'aa-' stand-alone credit profile on BPA. The outlook is stable.

Although the bonds are subordinate ENW obligations, ENW covenanted to close the prior lien. Closed-lien, senior debt represents about 6% of nonfederal debt.

Concurrent with the sale of the refunding bonds referenced above, ENW will issue on April 3 refunding bonds sold as forward delivery bonds in August 2011. These bonds consist of \$155.4 million of project 1 electric revenue refunding bonds, series 2012-A; \$441.2 million of Columbia Generating Station electric revenue refunding bonds, series 2012-A; and \$67.9 million of project 3 electric revenue refunding bonds, series 2012-A.

BPA has entered agreements that we understand require it to treat debt service on \$5.9 billion of ENW and other nonfederal bonds as an operating expense. Bonneville pays nonfederal debt ahead of servicing \$7.3 billion of federal debt that consists of Treasury debt and appropriations.

BPA's nonfederal rated obligations include:

- \$5.6 billion of ENW revenue and refunding bonds;
- \$116.7 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;

- \$21.7 million of Northern Wasco Public Utility District, Ore. (McNary Dam Project) bonds;
- \$11.2 million of conservation and renewable energy system bonds; and
- \$6.7 million of Tacoma, Wash., conservation system project bonds.

Through the Northwest Infrastructure Financing Corp., which developed transmission assets financed through lease arrangements, Bonneville also has \$566 million of line of credit obligations.

The 'AA-' ratings on BPA's nonfederal debt reflect the application of our government-related entities criteria (GRE) to BPA. We believe that Bonneville's stand-alone credit profile is 'aa-' and there is a "moderately high" likelihood that the U.S. government would provide extraordinary support to it in financial distress. We base the latter view on our opinion of the "strong" link between the BPA and the federal government, as well as the "important" federal role the agency plays in the Pacific Northwest. However, after downgrading the U.S. to 'AA+' from 'AAA' in August 2011, we no longer view the U.S. government's sovereign credit profile as lifting the ratings of BPA nonfederal obligations above its stand-alone credit profile.

The GRE rating reflects our view of:

- Bonneville's status as a federal agency;
- The ongoing financial support the federal government provides to the agency through long-term loans and credit lines;
- Legislation that allows BPA to defer repayments of federal obligations if in financial distress; and
- The utility's important contributions to the Pacific Northwest's economy, where it indirectly serves about 12 million electric customers in seven states, provides low-cost power that is critical to the region's economic health, and operates key transmission resources.

Bonneville's stand-alone credit profile reflects our assessment of the following factors:

- The ongoing support the federal government provides to BPA through loans and credit lines;
- The 2009 increase from Congress to the agency's federal borrowing authority to \$7.70 billion, up \$3.25 billion (or 73%). However, BPA projects that by 2016 it will consume the headroom between its \$2.9 billion of U.S. Treasury borrowings and \$7.7 billion as it proceeds with its capital program. The \$7.7 billion limit includes a \$750 million credit line;
- The legislative mechanism that allows Bonneville to pay nonfederal debt as an operating expense ahead of federal debt service and to defer repaying federal obligations if it lacks the financial resources to meet all of its operating and debt obligations;
- A track record of at least 1.8x nonfederal debt service coverage in fiscal years 2007-2011;
- The utility's exceptionally broad and diverse service territory;
- The strong, efficient, and economical operations of the federal Columbia River Power System hydroelectric power system foster strong demand for their output and ENW nuclear production;
- Robust liquidity, which tempers the impacts of variable hydrology conditions on financial performance and mitigates credit risks inherent in biennial rate cases;
- New 20-year contracts between BPA and its customers, which demonstrate the customer base's commitment to the agency's system. However, the new contracts do not establish rates and the utility continues to rely on rate proceedings; and
- The tiered rates that underlie the new customer contracts, which help shield BPA from market volatility relating

to customers' energy needs beyond the capacity of the federal hydroelectric projects and the Columbia nuclear generating station.

Standard & Poor's also incorporates the following exposures in its assessment:

- Financial performance hinges on hydrology conditions that can impair surplus power sales revenues and can require replacement power purchases that add to expenses. Due to poor hydrology, accrual debt service coverage of nonfederal and federal debt was only 0.8x in 2009 and 2010, and 0.9x on a cash basis. BPA's cash from operations was \$268 million in 2009 and \$370 million in 2010, representing the lowest points in cash from operations since 2007. However, we believe robust liquidity provided a cushion that tempered the financial implications of weak hydrology.
- Following 2011's above-average hydrological conditions, Bonneville forecasts below-average conditions for 2012, which will likely lead to further draws on liquidity.
- Highly politicized and protracted biennial rate proceedings can delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility. BPA implemented current rates in October 2011 for fiscal years 2012-2013.
- Weak prices in competitive wholesale power markets persist since 2009 and compromise revenues from surplus energy sales and financial performance.
- BPA and ENW project substantial capital needs which could add to both organizations' debt and consume Bonneville's Treasury borrowing authority. It reports it is exploring off balance sheet financing arrangements, including leases and energy prepayments to address expectations that it will soon exhaust its federal borrowing capacity.
- Accommodating the financial exposures that the region's wind generation resources' owners face when wind resources are displaced during the spring's high water flows could add costs that BPA will not address until its next rate proceeding covering fiscal years 2014-2015.

Bonneville markets electricity generated at 31 federal hydroelectric projects; ENW's nonfederal nuclear Columbia Generating Station; and several nonfederal small power plants. It also operates an extensive transmission system that facilitates power marketing activities. Its transmission system represents about 75% of the Pacific Northwest's transmission capacity.

The agency's federal debt includes bonds issued to the U.S. Treasury and federal appropriations that BPA must repay with interest. The nearly 1-to-1 ratio of nonfederal-to-federal debt facilitates what we consider sound debt service coverage of the nonfederal bonds as long as rates meet all financial obligations.

Outlook

The stable outlook reflects our view that Bonneville's stand-alone credit profile can withstand a further downgrade on the U.S. Also, the nearly 8% rate increases established in BPA's rate proceeding that cover the two fiscal years that began 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. Yet, 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, we could lower Bonneville's stand-alone credit profile. In addition, if BPA needs to add significant off-balance-sheet leverage obligations, it could also lead to negative implications for the stand-alone credit profile and the 'AA-' rating.

Related Criteria And Research

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

Ratings Detail (As Of March 14, 2012)		
Conservation and Renewable Energy Sys, Washington		
Bonneville Pwr Admin, Oregon		
Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest proj 1, Columbia Generating St, & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2006 A-D		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subseries F-1 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due 07/01/20		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subser F-2 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due 07/01/2018		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) rfdg rev bnds (Bonneville Pwr Admin-Nuclear Proj #1 & #3) ser 1993C dtd 09/01/1993 due 07/01/1996 1999 2002-20		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (MBIA) (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg bnds ser 2005 A & taxable ser B dtd 05/26/2005 due 07/01/2008 2013-2018		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Colu)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of March 14, 2012) (cont.)		
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) rfdg rev bnds ser 93C dtd 9/23/93 due 7/1/2013 2014 2015 2017(CUSIP #939830RW7 RY3 RX5 RZ0)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Lewis Cnty Pub Util Dist #1, Washington		
Bonneville Pwr Admin, Oregon		
Lewis Cnty rev rfdg bnds (Bonneville Pwr Admin) (Cowlitz Falls Hydroelectric Proj) ser 2003 dtd 07/16/2003 due 10/01/2007-2012		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Lewis Cnty (Bonneville Pwr Admin) rev rfdg bnds (Cowlitz Falls Hydroelectric Proj) ser 2003 dtd 07/16/2003 due 10/01/2013-2024		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist, Oregon		
Bonneville Pwr Admin, Oregon		
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRAns		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Tacoma, Washington		
Bonneville Pwr Admin, Oregon		
Tacoma (Bonneville Pwr Admin) (Pub Util Lt Div Conserv Sys Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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