

FITCH RATES PORT OF MORROW (OR) TRANSMISSION FACILITIES REVENUE BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-San Francisco-27 June 2012: Fitch Ratings assigns an 'AA' rating to the following bonds issued by Port of Morrow (OR) and secured by payments from the Bonneville Power Administration:

--Approximately \$90 million transmission facilities revenue bonds, series 2012.

The Port of Morrow bonds are expected to price the week of July 16, 2012. Proceeds from the bonds will refinance a line of credit used to construction transmission assets in the region for the use by the Bonneville Power Administration, pay a termination fee in connection with repaying the line of credit early, and pay costs of issuance. The bonds do not 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 for all bonds is Stable.

SECURITY

The Port of Morrow bonds are secured by an absolute and unconditional payment obligation from the Bonneville Power Administration. Bonneville's payments are made as an operating expense directly to the Trustee and are on par with approximately \$5.6 billion (as of 9/30/11) in debt outstanding at Energy Northwest. The Port of Morrow and Energy Northwest obligations are paid prior to Bonneville's payments to the U.S. Treasury on approximately \$7.3 billion (as of 9/30/11) in Treasury obligations outstanding.

KEY RATING DRIVERS

BONNEVILLE'S OBLIGATION SECURES BONDS: The rating on the Port of Morrow bonds is the same as the implied revenue bond rating for Bonneville Power Administration, which reflects Bonneville's absolute and unconditional obligation to make the lease payments.

COMPETITIVE WHOLESALE SUPPLIER: Bonneville 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: Bonneville has established a two-year rate-setting cycle, with mid-period cost adjustments allowed. Bonneville also employs 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.

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 only \$129 million as of Dec. 31, 2011. However, this concern is somewhat mitigated by various financial and rating setting options available to Bonneville, along with a \$750 million federal line of credit with the treasury department, which provides additional liquidity support.

LARGE CAPITAL NEEDS: Recent increases from the federal government in Bonneville's 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. The use of the Port of Morrow lease structure provides an avenue to fund a portion of Bonneville's transmission related capital needs and additional issuance through the Port of Morrow is anticipated.

CREDIT PROFILE

PORT OF MORROW LEASE

The Port of Morrow will issue bonds to purchase transmission assets constructed for Bonneville's benefit by the Northwest Infrastructure Financing Corp. II (NIFC II). The assets consist of a variety of transmission related assets and do not secure the lease transaction. The Port of Morrow has the authority to own and issue bonds to fund transmission assets throughout the region. This right was validated by a court opinion sought by the port in March 2012, prior to undertaking this transaction. The leased assets will be held by the port and will be tax-exempt assets.

According to the terms of a lease agreement between the Port of Morrow and Bonneville, Bonneville will make unconditional lease payments directly to the trustee (the Port has assigned the lease revenues to the trustee) that are equal to debt service on the bonds. Bonneville will also pay any additional taxes, charges or other governmental charges, as well all reasonable costs and expenses of the issuer in connection with the lease agreement. The lease agreement terminates in 2042 or only once all the bonds are repaid. Bonneville retains all operational control of the transmission assets.

For additional information on Energy Northwest and Bonneville Power Administration, please see Fitch's report, 'Energy Northwest; Bonneville Power Administration', dated March 19, 2012.

Contact:

Primary Analyst
Kathy Masterson
Senior Director
+1-415-732-5622
Fitch, Inc.
650 California Street, 4th Floor
San Francisco, CA 94010

Secondary Analyst
Alan Spen
Senior Director
+1-212-908-0594

Committee Chairperson
Dennis Pidherny
Senior Director
+1-212-908-0738

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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 12, 2012;
- 'Public Power Rating Guidelines', March 28, 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=681015

U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665815

U.S. Public Power Peer Study — June 2011

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=636311

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