

Global Power North America
 New Issue

Energy Northwest
 Bonneville Power Administration

Ratings

New Issue

Project No. 1, Columbia Generating Station,
 Project No. 3 Electric Refunding Revenue
 Bonds, Series 2001-A..... AA

Outstanding Debt

Security Class	Current Rating	Previous Rating	Date Changed
Prior Lien Refunding Rev. and Refunding Elec. Rev. Bonds	AA	AA-	5/3/00

Rating WatchNone
 Rating OutlookStable

Analysts

Alan Spen
 1 212 908-0594
 alan.spen@fitchratings.com

Lina Santoro
 1 212 908-0522
 lina.santoro@fitchratings.com

Profile

BPA is the largest of the regional federal power marketing agencies within the DOE. It markets electric power from 29 federally owned hydroelectric projects, mostly located in the Columbia River Basin. The electricity is marketed by the BPA across a service area covering 300,000 square miles (population exceeding 10 million people). About 45% of the electric power consumed in the region is sold by BPA. The agency also operates and maintains a high-voltage transmission system, comprising about 75% of the bulk transmission capacity in the Pacific Northwest.

Key Credit Strengths

- Leading supplier of electricity and transmission service in the Pacific Northwest.
- Net billed bonds paid before U.S. Treasury payments.
- New rate proposals will significantly increase BPA's financial flexibility.

Key Credit Concerns

- High costs associated with management of fish and wildlife resources.
- Wide variation in hydroelectric flows can affect financial results.
- Large rate increases needed to support purchased power requirements.

Rating Rationale

The rating is supported by Bonneville Power Administration's (BPA) contractual commitment to pay debt service on the Energy Northwest (ENW) bonds, BPA's position as a leading provider of electric and transmission services in the Pacific Northwest, and electric rates that are low for the region. Recently, BPA successfully developed and implemented a business plan, resulting in high customer retention, more competitive power production costs, and increased operation and financial flexibility. With the sharp increase in electric and natural gas prices, BPA is in a generally strong position as one of the lower cost providers of electricity in the West. However, BPA's need to purchase additional power to meet current loads and service growing demand for the next five years will put upward pressure on electric rates and necessitate a substantial increase in rate levels from historically low levels. Helping BPA mitigate these pressures are agreements with related federal and state agencies and BPA customers, which allow BPA flexibility in how it runs the Columbia River Basin system to increase the amount of energy production while benefiting its financial reserves. In addition, a new five-year power rate proposal to become effective Oct. 1, 2001 would allow BPA to increase rates to load-based customers on a more flexible, six-month basis, if needed, while permitting the accumulation of surplus net revenues to bolster BPA's financial position and better ensure that BPA makes annual payments due the U.S. Treasury. BPA expects to maintain a sound fiscal position, helped partly by these new proposals.

Potential concerns relate to well below-average hydroelectric conditions in 2001 and fish and wildlife issues centered on the 2000 Biological Opinion. The 2000 Biological Opinion is likely to cause BPA's fish and wildlife costs to run at about \$350 million per year on average for fiscal years 2002-2006, exclusive of power impacts from lost power revenues and increased power purchases. In addition, BPA has undertaken aggregate power sales commitments for roughly 9,100 average megawatts, with about 6,600 average megawatts to regional preference customers, 1,500 megawatts to direct service industries, and 1,000 megawatts to regional investor-owned utilities for use to meet their residential and small farm loads. While existing federal system resources will provide much of these requirements, BPA expects it will need to augment the federal system output with additional purchases of electric power from other systems or resources at substantially higher prices. BPA has already made several power purchases but will need to make more and will also be looking to reduce load on its system. Lastly, BPA and the region expect to continue facing political pressure from groups outside the Pacific Northwest that believe the region overly benefits from its low-cost federal hydroelectric system.

March 15, 2001

■ New Issue Details

ENW's approximately \$500 million of electric refunding revenue bonds, series 2001-A, were issued to refund prior lien bonds sold by ENW in connection with Project No. 1, the Columbia Generating Station (formerly known as Nuclear Project No. 2), and Project No. 3 and to extend the final maturity of the outstanding Columbia Generating Station debt from 2012 to 2018. The series 2001-A bonds will be

secured on a subordinated basis to the prior lien bonds pursuant to long-term net billing agreements with the U.S. Department of Energy (DOE), acting through the administrator of the BPA. The prior lien bond resolution closed with this financing. Providing strong support for all ENW bonds is that net billed obligations are paid prior to annual U.S. Treasury payments, which approximated \$732 million in fiscal 2000. Goldman, Sachs & Co. led the underwriting team.

Financial Summary

(\$ Mil., Fiscal Years Ended Sept. 30)

	1996	1997	1998	1999	2000
Income Statement					
Total Operating Revenues	2,428	2,272	2,313	2,619	3,040
Total Operating Expenses	<u>1,958</u>	<u>1,780</u>	<u>1,986</u>	<u>2,140</u>	<u>2,465</u>
Operating Income	470	492	327	479	575
Other Income/(Expenses)	<u>(374)</u>	<u>(374)</u>	<u>(376)</u>	<u>(355)</u>	<u>(334)</u>
Net Income	96	118	(49)	124	241
Adjustments to Operating Income for Debt Service Coverage	775	737	833	960	881
Income Available for Debt Service	1,245	1,229	1,160	1,439	1,456
ENW Annual Debt Service	498	464	545	651	561
BPA Aggregate Annual Debt Service Including ENW	1,167	1,022	1,108	1,212	1,104
Selected Balance Sheet Items					
Unrestricted Cash and Investments	247	446	583	685	848
Restricted Cash and Investments	—	—	—	—	—
Net Plant	15,048	15,140	15,004	14,754	14,567
Total Debt	16,411	16,514	16,355	16,101	15,817
Equity and/or Retained Earnings	(276)	(276)	(183)	(231)	(108)
Key Ratios					
ENW Debt Service Coverage (x)	2.50	2.65	2.13	2.21	2.60
BPA Aggregate Debt Service Coverage (x)	1.07	1.20	1.05	1.19	1.32
Days Cash on Hand	76.2	156.1	184.6	211.9	195.4
Operating Margin (%)	19.4	21.7	14.1	18.3	18.9
Net Margin (%)	4.0	5.2	(2.1)	4.7	7.9
General Fund Transfer as % of Revenues	—	—	—	—	—
Short-Term Debt/Total Debt (%)	—	—	—	—	—
Variable Debt/Total Debt (%)	—	—	—	—	—
Net Plant/Net Debt (x)	0.93	0.94	0.95	0.96	0.97
Equity/Capitalization (%)	(1.7)	(1.7)	(1.1)	(1.5)	(0.7)

BPA – Bonneville Power Administration. ENW – Energy Northwest. Note: Debt service coverage is calculated as financial coverage, not resolution/indenture coverage. Source: Comprehensive Annual Financial Report.

Copyright © 2001 by Fitch, One State Street Plaza, NY, NY 10004

Telephone: New York, 1-800-753-4824, (212) 908-0500, Fax (212) 480-4435; Chicago, IL, (312) 368-3100, Fax (312) 263-1032; London, 011 44 20 7417 4222, Fax 011 44 20 7417 4242; San Francisco, CA, 1-800-953-4824, (415) 732-5770, Fax (415) 732-5610

Printed by American Direct Mail Co., Inc. NY, NY 10014. Reproduction in whole or in part prohibited except by permission.

Fitch ratings are based on information obtained from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or the unavailability of, information or for other reasons. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from \$1,000 to \$750,000 per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from \$10,000 to \$1,500,000. The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the federal securities laws. Due to the relative efficiency of electronic publishing and distribution, Fitch Research may be available to electronic subscribers up to three days earlier than print subscribers.