

## Rating Update: [Energy Northwest, WA](#)

### MOODY'S UPGRADES TO Aaa ENERGY NORTHWEST REVENUE BONDS

#### CREDIT RATING REFLECTS FUNDAMENTAL STRENGTH OF BONNEVILLE POWER ADMINISTRATION

Electric Utilities  
WA

#### Opinion

NEW YORK, Mar 19, 2004 -- Moody's Investors Service has upgraded the rating to Aaa from Aa1 on \$5.9 billion of outstanding revenue bonds of Energy Northwest, a major joint action agency in the Pacific Northwest. The credit outlook on the Energy Northwest bonds is stable. The Aaa rating is rooted in the strength of the legal arrangements between Energy Northwest and the federal entity that provides the underlying security for the bonds, Bonneville Power Administration (BPA)-a US Department of Energy line-agency. These arrangements have withstood substantial stress over the last two decades, including the default of the Project 4 and 5 Washington Public Power Supply System (WPPSS) bonds, and the more recent turmoil experienced in western energy markets during 2001.

Moody's has also assigned an issuer rating of Aaa to BPA on the basis of its relationship to the U.S. Government and its fundamental credit strengths as a power supply and transmission agency. The BPA has no public debt outstanding; the Aaa issuer rating measures the strength of its various credit commitments, including its net billing agreements with Energy Northwest.

Moody's has also upgraded to Aaa from Aa1 various non-federal bonds backed by BPA (see list below) that are payable prior to BPA's required payment on U. S. Treasury obligations.

Contributing to the upgrade on the Energy Northwest bonds are: the evident implicit support by the federal government for Energy Northwest bonds through BPA; BPA's established record of full cost recovery from its business operations and rates; the increasing economic advantage of the federal hydro system relative to other fuels; and BPA's importance as the major transmission operator in the region and its role as the sole marketer of the low cost federal hydro system energy and power.

Energy Northwest was formerly known as the Washington State Public Power Supply System (WPPSS), which during the 1980s defaulted on bonds separately secured from those now upgraded (Project 4 and 5 bonds defaulted in 1983). The Energy Northwest bonds now upgraded were originally issued by WPPSS to finance Projects 1,2, and 3. The key legal arrangements securing the Energy Northwest bonds are known as "net billing agreements", under which BPA promises payment to Energy Northwest under various circumstances. The legal structure securing Energy Northwest bonds have withstood the legal challenges brought on by the Projects 4 and 5 bond defaults. Unlike the Project 4 and 5 bonds, bonds issued to finance Projects 1,2, and 3 never missed a payment and continued to enjoy protection under BPA net billing agreements which are still in force. Potential questions regarding the implications of the Project 4 and 5 defaults for Projects 1, 2 and 3 were favorably resolved. Projects 1 and 3, were only partially constructed nuclear units, and then abandoned as they were ultimately non-economic. Project 2 bonds, now called Columbia Generating Station bonds, financed the only nuclear unit that is operating, have also been serviced by the net billing agreements. The agreements reflect the US Government's implicit support for the Energy Northwest revenue bonds. The various federal statutes relating to BPA and the administrative record in place

lend confidence that the revenue bonds debt service will be paid even under adverse circumstances.

In addition to the long history related to WPPSS, BPA management was again put to the test in 2001 of managing through one of the lowest years of hydro production on record and a period when wholesale market volatility threatened the financial stability of many electricity providers in the region. Despite the significant operating pressures, BPA managed with the use of numerous financial and operational strategies to maintain electric system reliability while keeping a satisfactory level of cash reserves and sources of liquidity, insuring Energy Northwest revenue bonds were paid first and the U.S. Treasury was paid in full and on time.

Significant financial improvement in 2002 and 2003 were the result of expenditure reductions, a debt optimization plan, significant rate hikes and the combined effect of improving water conditions and less wholesale market price volatility. The significant rate hike was evidence of BPA's willingness to establish rates to recover its costs from users as required by federal statutes. BPA's use of the flexibility created by the debt optimization program to prepay higher cost U.S. Treasury obligations rather than lower wholesale power rates was a positive long-term strategy to improve financial position. BPA's cash reserves have returned to strong levels. First quarter 2004 financial results reflect continued financial recovery.

#### Opportunities/Strengths

"Credit strength is derived from BPA's status as a line agency of the US Department of Energy and the strong relationship with the US Government that allows for direct borrowing authority with the US Treasury and the legal ability to defer annual Treasury repayment when necessary to meet commitments under the net billing agreements.

"The major and growing cost advantage of hydroelectric energy and power relative to other fuels.

" BPA's (now rated Aaa by Moody's) important role in the northwestern region of the U.S. is a fundamental strength. BPA owns and operates 75% of the bulk transmission system and markets low cost hydroelectric power amounting to 40% of the region's power.

"The low likelihood of BPA privatization, given BPA's a major public role related to environmental issues, conservation, power generation and transmission service.

"BPA demonstrated its willingness to maintain financial soundness with the enactment of a 46% rate increase in 2001 to insure cash flow remained adequate.

"Effective BPA financial management under stress. BPA has several sources of liquidity which provide it with a substantial cushion in a worst case power market environment. BPA has a \$4.45 billion line of credit with the U.S. Treasury. BPA can defer payments to the U.S. Treasury, although it has made timely payments to the Treasury since 1983.

#### Risks/Weaknesses

"River governance must manage the sometime conflicting goals of numerous stakeholders (flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection and power generation), which can influence the availability of the system to meet load. Fish and wildlife protection create financial and operational pressures for BPA. Environmental concerns represent a significant public concern in the Northwest and numerous operating restrictions are incorporated in federal statutes, such as the Endangered Species Act.

"Although still low compared to other western market players, BPA's power rates are now 46% higher than in 2000 narrowing BPA's still large competitive cost margin. Numerous public power utilities have challenged the rate policies in federal court.

"Most of the energy and power marketed by BPA is generated by the federal system's 30 hydroelectric facilities, most of which are located in the Columbia River Basin. Weather conditions affect water flow, which creates variability in electricity supply. This in turn, exposes BPA to the volatility of the wholesale power

market should it need replacement resources to meet load.

Ratings Affected by Rating Action:

Energy Northwest Project No.1 Revenue Bonds-Aaa (revised from Aa1)

Columbia Generating Station Revenue Bonds-Aaa (revised from Aa1)

Nuclear Project No. 3 Revenue Bonds-Aaa (revised from Aa1)

Lewis County Public Utility District No. 1 Cowlitz Falls Hydroelectric Revenue Bonds-Aaa (revised from Aa1)

Tacoma Conservation System Project Revenue Bonds- Aaa (revised from Aa1)

Northern Wasco County Peoples Utility District -Aaa (revised from Aa1)

Conservation and Energy Renewable System (CARES) -Aaa (revised from Aa1)

City of Eugene, Oregon Water and Electric Board (EWEB) Trojan Nuclear Project -Aaa(revised from Aa1)

Northwest Infrastructure Financing Authority-Aaa (revised from Aa1)

### **Outlook**

Moody's has a stable credit outlook on the Energy Northwest revenue bonds based on the strong support provided by BPA through the net billing agreements.

### **Analysts**

Dan Aschenbach  
Analyst  
Public Finance Group  
Moody's Investors Service

Edward Roche  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Matthew Jones  
Senior Credit Officer  
Public Finance Group  
Moody's Investors Service

Renee A. Boicourt  
Director  
Public Finance Group  
Moody's Investors Service

### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

© Copyright 2004, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$1,800,000.