

This High Profile New Issue provides a discussion of the factors underpinning the credit ratings and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moody's.com. [Click here to link.](#)

Energy Northwest, WA

Ratings & Contacts

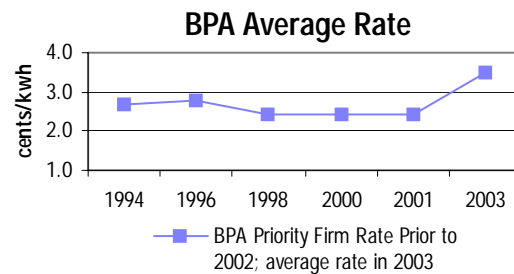
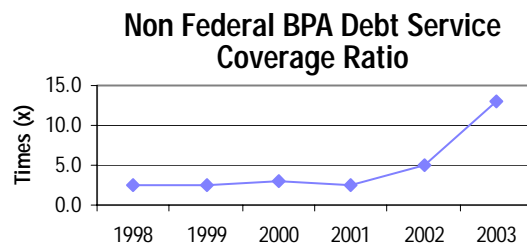
Category	(1)(2)(3)Moody's Rating	Analyst	Phone
Nuclear Project No. 1	Aaa	Dan Aschenbach	(212) 553-0880
Columbia Generating Station	Aaa	Ken Kurtz	(415) 274-1737
Nuclear Project No. 3	Aaa	Renée Boicourt	(212) 553-7162
Bonneville Power Administration Issuer rating :	Aaa	Marie Matesanz	(212) 553-7241
		Matt Jones	(415) 274-1735

(1) Issuer name changed in 1999 to Energy Northwest; bonds that were issued under name of Washington Public Power Supply System remain outstanding
 (2) Net billed bonds are contractual obligations of the US Department of Energy, acting through the Bonneville Power Administration
 (3) Senior and Subordinate lien bonds rated Aaa

Issuer Contact

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Al Mouncer, VP Corporate Services/General Counsel CFO, Energy Northwest	(509) 372-5331

Financial Charts



Key Indicators (1)

	1996	1997	1998	1999	2000	2001	2002	2003
BPA Operating revenues (\$000)	\$2,427,601	\$2,272,037	\$2,313,253	\$2,618,879	\$3,040,169	\$4,278,669	\$3,533,729	\$3,612,104
BPA Revenue Available for Treasury (\$000)	880,714	909,587	760,077	948,159	1,058,190	671,235	895,034	1,449,579
Non-Federal Debt-Service Coverage Ratio (x)	2.8	3.0	2.4	2.4	2.9	2.4	4.9	13.1
BPA Priority Firm Power Rate (cents/kWh)	2.4	2.4	2.4	2.4	2.4	2.4	4.9	13.1
Total Sales--MW average	11,647	11,510	10,165	11,394	11,361	10,302	11,732	10,764
Energy Northwest Nuclear Energy as %								
BPA Total Firm Energy	9.70%	9.70%	9.58%	9.73%	9.79%	11.00	11.00	11.00
Columbia Generating Station Net Generation (000)	7,704	6,965	7,502	6,975	8,260	7,996	9,262	7,738
Columbia Generating Station (cents/kwh)	2.69	2.39	2.3	2.4	2.1	2.6	2.1	3.0
Capacity Factor, WNP-2 (%) ¹	61.3	60	71.9	71.9	79.3	81.8	92.0	78.5

1-Fiscal years

Opinion

Moody's Investors Service has assigned the credit rating of Aaa to Energy Northwest's \$655 million of revenue bonds (Project No.1, Columbia and Project No. 3) that Energy Northwest expects to price in later May 2004. Moody's has also affirmed the Aaa credit rating on Energy Northwest's outstanding \$5.3 billion of revenue bonds. 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 a Aaa issuer rating to BPA on the basis of its relationship to the US 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.

Contributing to the Aaa rating on the Energy Northwest bonds are the evident implicit support by the federal government for Energy Northwest bonds through BPA and BPA's established record of full cost recovery from its business operations and rates.

The rating is also based on 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 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 that 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 noneconomic.

Project 2 bonds—now called Columbia Generating Station bonds, financing 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, 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, ensuring Energy Northwest revenue bonds were paid first and the US 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 US 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. The first two quarters of 2004 financial results reflect continued financial recovery.

Credit Outlook

Moody's maintains a stable credit outlook for the Energy Northwest/WPPSS revenue bonds. BPA business fundamentals continue to be sound.

Energy Northwest, WA

Debt Statement As of January 2004 (\$000):

	Rating	Amount Outstanding	Final Maturity
Nuclear Project No.1	Aaa	\$2,222,053	7/1/2017
Columbia (Nuclear Project No. 2	Aaa	2,384,394	7/1/2012
Nuclear Project No.3	Aaa	1,989,747	7/1/18
Packwood Lake Project	Aa1	4,316	3/1/2012
Nine Canyon Wind Project	A3	\$104,319	6/30/2019

Rating History

Nuclear Project No. 1:

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (I)
June 1983:	Suspended
May-87	Baa
May 1982:	A1
February 1982:	A1
September 1975:	Aaa

Nuclear Project No. 2

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
June 1983:	Baa
May 1983:	A1
February 1982:	A1
February 1975:	Aaa

Nuclear Project No. 3

March 2004:	Aaa
August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
May 1983:	Baa
May 1982:	A1
February 1982:	Aa
November 1975:	Aaa

Nuclear Projects Nos. 4 and 5:¹

June 1983:	Withdrawn
June 1983:	Caa
January 1982:	Suspended
June 1981:	Baa1
February 1977:	A1

(1) Not a BPA-backed obligation.

Packwood Lake Hydroelectric Revenue Project:

August 1996:	Aa1
May 1990:	Aa
August 1989:	A
February 1985:	Withdrawn (1)
June 1983:	Suspended
March 1962:	A

Credit Fundamentals

Energy Northwest maintains net billing agreements with BPA that link its credit quality to that of BPA. Following are our credit considerations:

Opportunities/Strengths

- Credit strength derives 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) important role in the northwestern region of the US is a fundamental strength. BPA owns and operates 75% of the bulk transmission system and markets low-cost hydroelectric power, amounting to 45% 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's demonstrated willingness to maintain financial soundness with the enactment of a 46% rate increase in 2001 to ensure cash flow remained adequate.
- Effective BPA financial management under stress. BPA has several sources of liquidity that provide it with a substantial cushion in a worst case power market environment. BPA has a \$4.45 billion line of credit with the US Treasury. BPA can defer payments to the US 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 with those of other western market players, BPA's power rates are now 46% higher than those 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, which, in turn, exposes BPA to the volatility of the wholesale power market should it need replacement resources to meet load.

EVENT-AND COURT-TESTED NET BILLING AGREEMENTS WITH BPA PROVIDE STRONG SECURITY TO ENERGY NORTHWEST/WPPSS REVENUE BONDS

Most important to the credit rating Moody's has assigned to the Energy Northwest/WPPSS's revenue bonds is the US government's clear commitment, through BPA, to the Project 1, Columbia Generating Station, and Project 3 bonds. This commitment is demonstrated through the net billing agreements between the Energy Northwest project participants and BPA.

The agreements have withstood more than 20 years of stressful circumstances, such as the legal challenges to Nuclear Projects 1, Columbia Generating Station, and Project 3 bonds brought on by the Project 4 and 5 bond defaults (Projects 4 and 5 bonds were not backed by BPA net billing agreements) and, most recently, by the termination of Projects 1 and 3, which were partially constructed nuclear units financed by the Projects 1 and 3 bonds.

Despite Projects 1 and 3 being terminated, the net billing agreements are still in force, and debt service on the project bonds are being paid.

The net billing agreements obligate project participants, consisting of numerous public utility districts and municipal and electric cooperative utilities, to pay Energy Northwest a proportionate share of the project's annual costs, including debt service, in accordance with each participant's purchase of project capability.

BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing amounts they owed for power and service purchased under participant power-sales agreements. After project termination, under the net billing agreements, the obligation for debt service is in effect until all the bonds are retired, as is the case in both Projects 1 and 3.

The US Court of Appeals for the Ninth Circuit affirmed in the *City of Springfield v. WPPSS*; 752 F.2d.1423 is the legal authority of all participants to enter into the net billing agreements; the US Supreme Court denied a petition for a writ of certiorari. The obligation of BPA and the participants is in force whether the projects are operable or terminated.

Most importantly (and this is a source of significant credit strength), BPA has agreed, in the event of any insufficient payment by a participant, to pay the amount due to Energy Northwest/WPPSS in cash, directly, and in a timely manner. Although the net billing agreements may be terminated prior to the maturity on the related net billed bonds, the obligation of the participant to pay their proportionate share of the debt service continues, as does the obligation of BPA to credit these payments or to make a payment if in any event there is an insufficient payment by a participant.

BPA'S STATUS AS US ENERGY DEPT. LINE AGENCY, FEDERAL GOVERNMENT'S IMPLIED SUPPORT OF ENERGY NORTHWEST REVENUE BONDS ARE KEY CREDIT STRENGTHS

Moody's has assigned an issuer rating of Aaa to BPA. The credit rating on the Energy Northwest/WPPSS bonds is rooted in BPA's credit strengths, the net billing contractual agreements, as well as the BPA's business fundamentals. Although government ownership or sponsorship does not necessarily translate into strong credit standing for an enterprise, BPA's strong credit fundamentals are further strengthened by its relationship with the federal government.

Moody's finds credit strength in BPA's ties to the federal government because of the following:

- **Line of Credit With Treasury.** BPA has authority to sell to the US Treasury \$4.45 billion (principal amount) of bonds; as of September 30, 2003, BPA had \$2.7 billion outstanding repayment obligations to the US Treasury. Also, in the past, BPA repaid the Treasury for annually appropriated funds to the US Army Corps of Engineers and the Bureau of Reclamation for operation and maintenance (O&M) costs of the federal Columbia River Power System. In 1999, BPA, for the first time, directly funded the entire O&M expenses of the federal Columbia River Power System.
- **Strength of US Governmental Control.** BPA is not a government corporation but a traditional line agency that is part of the US Department of Energy. The Energy Northwest/BPA contracts are actually contractual obligations of the US and are executed by the US Department of Interior. (See *Springfield vs. WPPSS 564F Supp 90.*)
The link between BPA and the federal government is further strengthened by the fact that BPA must submit annual budgets to Congress, and the Department of Justice remains responsible for BPA litigation. The Federal Energy Regulatory Commission (FERC) must approve the electric rates to ensure full cost recovery of BPA's costs.
- **Implicit US Government Support.** BPA is required by statute to defer its annual Treasury payments if funds are needed to meet its nonfederal obligations. BPA has not deferred such payments since 1983. BPA may issue to the Treasury, and the Treasury is required to purchase, up to \$4.45 billion of bonds. Payment on these bonds is subordinate to BPA's obligations on the net billed bonds.

Between 2001 and 2003, BPA demonstrated it had other federal financial liquidity tools available should an adverse situation occur. For example, between 2001-2003, BPA used \$489.6 million of credits under Section 4(h)(10)© of the Northwest Power Act, which relate to federal payment of fish and wildlife protection costs to reduce the actual cash payment to the US Treasury.

Without the credits, the power rate increase on customers would have been more significant. BPA identified sources of liquidity of more than \$1.5 billion to bridge any fiscal year (FY) 2004 gaps because of short-term cash flow shortfalls. Although there is no explicit US Government support for the net billed bonds, there is implicit support.

- **Economic, Social, and Political Ramifications of BPA's Failure.** BPA provides 45% of the electric power in the Pacific Northwest, owns 75% of the bulk electric power transmission, and 80% of the transmission capacity of the Pacific Northwest-Pacific Southwest Intertie. BPA is also responsible for significant regional environmental protection programs as well as for coordinating river operations and treaty responsibilities with Canada. BPA funded 70% of the fish and wildlife mitigation and recovery efforts in the Columbia Basin.

A BPA failure would have a far-reaching effect on the region, and it is our opinion that the federal government would go to substantial lengths to avoid such an occurrence. In addition, as the Northwest region looks to diversify and to add to its power resources, BPA is expected to play a major role in building new transmission lines between 2004 and 2006 to ensure that new generation constructed in the region can get to the regional marketplace efficiently.

Stated Political Support. Broad support for BPA was evident in the Clinton and Bush administrations' approval of the InterAgency Fish Agreement, which has established financial and operating parameters for operation of the federal hydro system. In February 2003, Congress approved a \$700 million increase in BPA's authority to borrow from the US Treasury.

- **Powerful Political Constituencies.** Because of the importance to the region of BPA, there is significant Northwest representation on key House and Senate committees that deal with legislation related to BPA. For example, five US senators from the Northwest are on the Senate Energy and Natural Resources Committee, which would suggest that any legislation dealing with electricity issues will have to treat favorably the Northwest US interests (including BPA) to move out of that committee's jurisdiction.
- **Past US Government Support, Which Has Aided Financial Health.** Since BPA's creation, numerous statutes have been enacted to address issues involving BPA and the Northwest region. Among them are the Bonneville Project Act of 1937, the Flood Control Act of 1944, the 1974 Federal Columbia River Transmission System Act, the Pacific Northwest Electric Power Planning and Conservation Act of 1980, and the 1996 BPA Appropriations Refinancing Act.

Each of these federal statutes includes provisions that aid BPA's financial health while meeting broader public policy obligations.

Business Fundamentals

BPA PLAYS MAJOR ROLE IN PACIFIC NORTHWEST ELECTRICITY MARKET

BPA markets to nearly 10 million people electric power from 30 federally owned hydroelectric facilities most of which are located in the Columbia River Basin. About 94% of generating capacity is from 13 projects. The facilities comprise more than 80% of BPA's firm power supply. (See Figure 2, which lists the numerous facilities.)

Power dispatched from Energy Northwest's Columbia Generating Station nuclear plant represents about 10% of BPA total energy resources. BPA's key business consists of power sales to public and private utilities for the purpose of reselling that power.

Despite increased competition from alternative power sources and the increase in BPA's power rate, BPA's cost structure remains competitive because of the dominant and low-cost hydroelectric generation. Moody's believes that the relative economic advantage of BPA's hydroelectric assets has increased. In particular, hydroelectric generation has a growing advantage over natural gas fired generation.

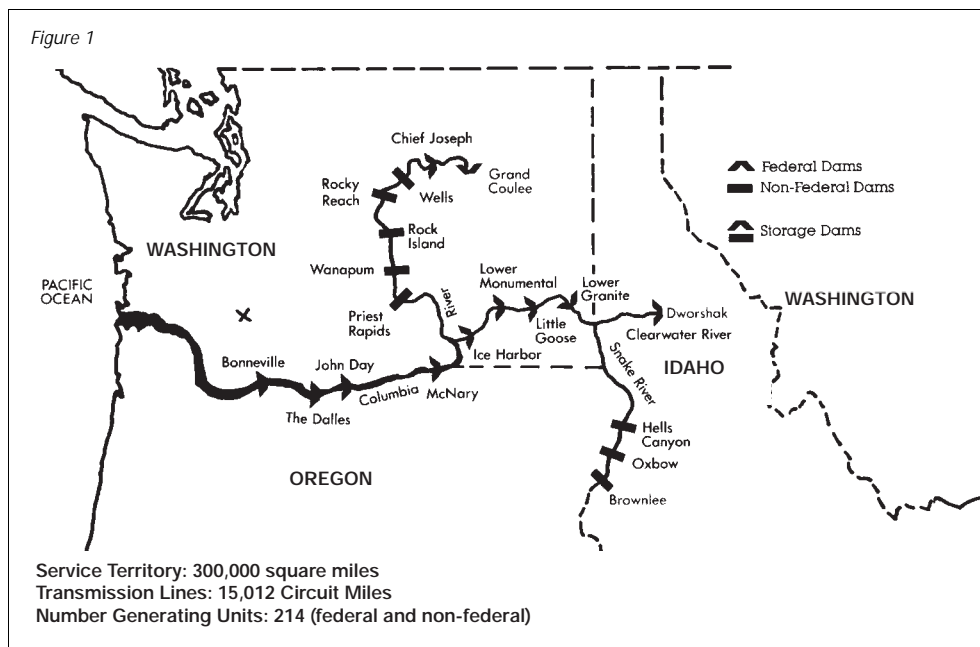


Figure 2

Operating Federal System For Operating Year 2003

Project	Initial Year of Service	Number of Generating Units	January Capacity (Peak MW)	Maximum Energy (aMW)	Median Energy (aMW)	Firm Energy (aMW)
United States Bureau of Reclamation Hydro Projects						
Grand Coulee	1941	33	5,325	3,041	2,378	1,872
Hungry Horse	1952	4	333	129	101	77
Other Bureau Projects		15	225	163	156	130
Total Bureau of Reclamation Projects			5,873	3,333	2,635	2,079
United States Army Corps of Engineers Hydro Projects						
Chief Joseph	1955	27	2,129	1,622	1,334	1,047
John Day	1968	16	1,888	1,376	1,065	768
The Dalles	1957	24	2,074	1,077	839	602
Bonneville	1938	20	752	562	523	357
McNary	1953	14	935	711	697	551
Lower Granite	1975	6	485	439	323	212
Lower Monumental	1969	6	595	411	272	214
Little Goose	1970	6	752	440	321	209
Ice Harbor	1961	6	471	314	199	97
Libby	1975	5	533	297	223	166
Dworshak	1974	3	343	219	190	125
Other Corps Projects		20	396	294	268	223
Total Corps of Engineers Projects		153	11,353	7,762	6,254	4,571
Total Bureau of Reclamation and Corps of Engineers Projects		205	17,226	11,095	8,889	6,650
Non-Federally Owned Projects						
Columbia Generating Station	1984	1	1,150	877	877	877
Other Non-Fed Projects		18	96	181	169	167
Total Non-Federally Owned Projects		19	1,246	1,058	1,046	1,044
Total Bonneville Contract Purchases			2,440	2,560	2,560	2,560
Total Federal System Resources		224	20,912	14,713	12,495	10,254

Source: 2001 Pacific Northwest Loads and Resources Study: Bonneville, October 2002

Background on BPA

In 1937, an act of Congress created BPA to market power from hydroelectric facilities constructed on the Columbia River. The Army Corps of Engineers and the Bureau of Reclamation operate the hydro projects. BPA is one of four regional power marketing agencies within the Department of Energy. Many of the statutory authorities of BPA are vested in the Secretary of Energy, who appoints and acts through the BPA administrator.

BPA's wholesale power rates are approved by the Federal Energy Regulatory Commission 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.

BPA'S ROLE NOW EXPECTED TO STRENGTHEN IN DEREGULATED ELECTRICITY INDUSTRY, PARTICULARLY IN TRANSMISSION SERVICES

Federal involvement in the deregulation of the electric industry has centered on the actions of the Federal Energy Regulatory Commission's (FERC) implementation of the National Energy Act of 1992. FERC has become aggressive with actions to encourage establishing regional transmission organizations (RTO). Although BPA transmission is not subject to FERC regulation, BPA has complied voluntarily with FERC rules on fair and nondiscriminatory access.

For example, BPA has physically separated its transmission and generation functions and implemented the required standards of conduct in transacting its transmission business. FERC has found that BPA's standards of conduct and rates acceptable. BPA continues to take an active role in establishing a regional solution for transmission access in a deregulated marketplace.

BPA's administrator has stated that BPA's participation in that process is a major strategy to ensure meeting regional needs. BPA has been an active participant in forming RTO West. The RTO West tariff has yet to be filed with FERC, and regional discussions continue to take place.

Under the direction of BPA, the single-purpose entity Northwest Infrastructure Financing Authority (rated Aaa) was established in 2004 to issue lease revenue bonds to finance construction of critical transmission lines in the Northwest region. BPA is obligated to make lease payments to service the debt. Moody's expects BPA to finance additional transmission improvements to improve the region's transmission infrastructure reliability.

COLUMBIA GENERATING STATION'S OPERATING RECORD HAS BEEN STRONG; IT FACED SETBACKS IN 2003 BUT VALUE REMAINS

Of the five nuclear units financed by the Washington Public Power Supply System, now Energy Northwest, the Columbia Generating Station is the only nuclear unit in operation with all the power economically dispatched by BPA. The 1,150 MW generating station has had an improving record, with an average capacity factor in excess of 80% over the past four-year period.

The plant's value to the BPA power system was increased in 1998 by adopting a 24-month fuel cycle. Calendar year 2002 was the best year in the plant's history, with a new generation record and a capacity factor of 92%. The unit's cost of power fell to \$20.60/mWh in 2002 from \$26/mWh in 1996.

In 2003, Columbia Generating Station experienced a forced outage, and Energy Northwest took the plant off line to resolve an insulation problem. Another outage in 2003 resulted in an overall lower capacity factor for 2003, but the value of the unit remains strong to BPA since incrementally it remains a competitive source of energy.

The Columbia Generating Station was cited by the Nuclear Regulatory Commission in 2001 for several violations, which Energy Northwest has resolved and closed with the NRC as of January 2003. The last Institute of Nuclear Power Operations evaluation in October 2002 resulted in a plant rating of 2 (exemplary), with various areas cited as being in need of improvement, which Energy Northwest reports it is working on.

Figure 3

Sound Performance Of Columbia Generating Station

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net generation (millions of kWh)	7,289	6,943	7,704	6,965	7,502	6,975	8,260	7,996	9,262	7,738
Cost in cents/kWh	3.45	3.34	2.69	2.39	2.3	2.38	2.14	2.61	2.08	3.01
Plant availability (%)	79.5	75	79.7	83.7	77.9	76.3	88.8	83.2	95.4	81.0
Plant capacity factor (%)	76.6	67.9	61.3	60	71.9	71.9	79.3	81.8	92.0	78.5

Financial Analysis

BPA'S STRONG MANAGEMENT MET CHALLENGE OF POSITIONING FOR DEREGULATION; SAME STRENGTHS EVIDENT IN REGIONAL POWER CRISIS

Moody's credit rating recognizes that BPA management has demonstrated a capacity to deal with major challenges. BPA management, for example, anticipated a more competitive electricity market and aggressively positioned the organization for electric industry deregulation while maintaining a strong financial position.

BPA did not rely on its access to federal funds but implemented in the mid-1990s a strategic plan that remained on track through 2001 to position the agency's cost structure for more competitive markets while maintaining strong financial reserves. For example, management trimmed an average \$600 million in expenses from the BPA annual bud-

get out of a 1996/2001 forecasted expenditure base of \$3 billion, including a staff reduction of 20%. BPA was able to lower its wholesale rate to 2.44 cents/kWh, well below the original forecasted rate in the 3 cents/kWh range.

The lower BPA cost structure positioned BPA favorably as it began to undertake negotiations for the new power sale contracts that would begin October 1, 2001, for the 2002/2006 period. The success of the BPA strategic plan and the regional recognition of BPA's strengths are evident in the significant increase in customers wanting to purchase power from BPA. To meet the excess power sales above the federal generation system, BPA had to purchase power since generation was not adequate.

The Pacific Northwest faced unprecedented circumstances in 2000/2001 regarding power supplies and costs. BPA successfully managed through a difficult period. The region's hydro-based system experienced drought conditions, with BPA estimating water volumes to be at the second lowest level since 1929. BPA decided to avoid the volatile wholesale market to meet a portion of its load obligations by entering short-term contracts with regional power suppliers.

BPA had projected the electric power market to register near-term prices (2001 to 2003) in the \$200/mWh range, so it locked into much higher-than-historical-average-priced contracts. Regional spot market prices subsequently dropped dramatically. As water conditions remained low through 2002 (70% to 75% of average) and the regional power market remained volatile, BPA's financial operations faced challenges.

The combination of the higher-than-expected power purchase expenses resulting from low water conditions and high wholesale energy prices and the lower-than-expected power sales revenue from surplus sales because of low water conditions significantly affected BPA's financial condition.

Audited actual financial results for FY 2002 reflected negative net revenues of \$308 million, which improved to positive \$9.4 million when the debt optimization change was considered. Financial reserves were at a low \$188 million at year-end 2002, down from the 2001 level of \$625 million. BPA, however, did meet its FY 2002 payment obligation to the US Treasury for the 19th consecutive year. BPA achieved these financial results despite the unprecedented combination of low water conditions and the volatile regional energy marketplace.

BPA ACTIONS ACHIEVED SIGNIFICANT IMPROVEMENTS IN 2003 AND 2004 HIGHLIGHTING RATE POLICY AS A FUNDAMENTAL STRENGTH

BPA implemented several financial strategies in 2002/2004 to stabilize its operations and to secure a more sound financial position. A major fundamental strength that it exhibited was its willingness and capability to raise power rates sufficient to recover its costs and to meet its major financial objectives. BPA increased power rates in 2002 by an average 46% over the 2001 level.

The rates remain under challenge in the Ninth Circuit Court. Despite the challenge, the worst-case result is BPA will have to revise its approach to rates. However, the amounts collected will have to remain given the federal statute that requires BPA to recover all its costs from rates. As part of the new rate design, mechanisms were embedded in it to ensure that future rate increases occurred if BPA's forecasted ability to repay the US Treasury was uncertain.

BPA's financial reserves increased to \$511 million in 2003 from the \$188 million level in 2001. Forecasted cash reserves in 2004 are expected to remain in \$500 million range. (See Figure 4.) Key financial strategies include a debt optimization plan (a critical strategy) implemented to prepay more expensive Treasury debt, more than \$200 million in cost reductions made in 2003, obtaining \$176 million in repayment credits for certain fish and wildlife costs, and, in 2003, the triggering of a financial based cost-recovery adjustment clause rate increase that allowed BPA to recover \$90 million in additional revenues.

Also, BPA made its payments to the US Treasury (\$1.057 billion), marking the 20th consecutive year of making a full and timely payment.

Financial results through the first quarter of fiscal year 2004 continue to be managed well. Although snow pack conditions in Columbia River Basin (which determines level of hydroelectric power production) was lower, the financial results are close to forecast. Financial reserves at the end of first quarter 2004 were at \$583 million versus \$239 million the first quarter of 2003.

An important factor is that BPA has identified the various financial liquidity tools it has to better manage through difficult periods. For example, BPA has identified more than \$1.5 billion of liquidity it can use to bridge gaps because of short-term cash flow shortfalls. Further, the safety net rate-adjustment clause can also be established to assist in such worst-case circumstances. BPA also has authority to defer its repayment to the US Treasury in such a worst-case situation.

SUBSCRIPTION STRATEGY (2002-2006) AND RATE POLICY ARE KEY TO FINANCIAL STABILITY BUT INCLUDES CHALLENGES

BPA was successful at contracting all of the power from the federal system for the 2002 to 2006 period. Regionally, BPA was viewed as being in a strong competitive position, and its prices reflected that strength. More than 3300 MW of power was contracted beyond the federal system's capability. The success of the subscription process created a major challenge for the agency to meet the larger regional demand.

Strategies to augment BPA resources have included conservation programs and buy downs of load, spot-market purchases, and short-term power-purchase contracts. Meeting the region's demand will remain a major challenge for BPA over the next several years, particularly in low water years.

Under the power marketing strategy--the Subscription Strategy--BPA was able to subscribe access to the federal system's resources under long-term contracts. Those contracts took effect on October 1, 2001, for 135 public agencies, nine direct-service industries, and six investor-owned utilities that buy power from BPA. Most of the contracts have terms of 10 years. The contracts provide more certainty to BPA's financial operations.

Core subscription products include full requirements service, partial requirements service, and fixed block sales. BPA also entered into contracts with 25 preference customers to provide firm service known as Slice of the System. Slice of the System is a power sale by formula that has the same generation shape as the federal system output in return for payments to BPA at a percentage of BPA revenue requirements for that business line. About 22% of the downside risk of low water conditions has been assumed by BPA's slice product customers.

BPA's rates have been approved by FERC and provide for several adjustment mechanisms to ensure financial stability. The load-based cost-recovery adjustment clause allows an adjustment in rates every six months on costs to buy power to serve the BPA load. The adjustment for October 1, 2001, was a 46% increase.

Also, there is a financial based cost-recovery clause that allows for a temporary one-year adjustment if accumulated net revenues fall below a preset threshold. The safety-net cost-recovery adjustment clause is triggered if BPA forecasts a 50% or greater probability that it will miss a payment to Treasury.

These rate adjustment mechanisms are favorable policies that provide more certainty that action will be taken in a timely manner in a worst-case situation.

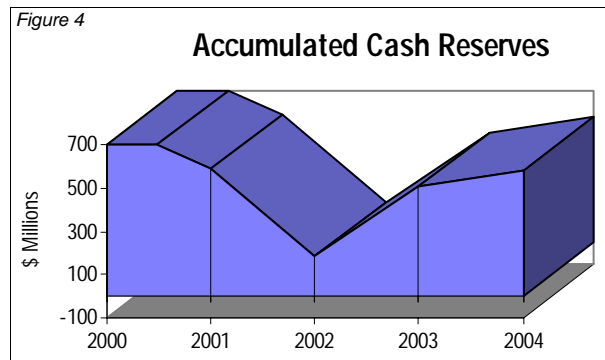
BONNEVILLE FUND IS A KEY SOURCE OF FINANCIAL FLEXIBILITY

The Bonneville Fund is a continuing federal appropriation available to meet all of Bonneville's cash obligations. All receipts, collections, and recoverables of BPA in cash from all sources are deposited in the Bonneville Fund. BPA may make only such expenditures from the Bonneville Fund as shall have been included in budgets submitted annually to Congress.

BPA includes in its annual budget submittal to Congress an amount sufficient to cover its obligations under the net billing agreements, including the payment of debt service on the net billed bonds. BPA is authorized under the Transmission System Act to make expenditures without further appropriation from Congress and without fiscal-year limitation if such expenditures have been included in the annual budget to Congress. The federal Office of Management and Budget includes BPA's budget in the budget the President submits to Congress.

BPA's operating revenues include the net billing credits BPA provides under the net billing agreements to the Energy Northwest participants in return for their payments to Energy Northwest to meet costs of Project 1, Columbia Generating Station, and Project 3. Net billing credits reduce BPA's cash receipts by the amount of the credits. These credits reduce the amount of revenues BPA has available to pay other obligations, including net billing agreement obligations.

In the opinion of the BPA's acting general counsel, BPA, according to federal statutes, may only make payments to the US Treasury after making payments related to the net billed bonds and other operating expenses. The net billed bonds have a priority position in the fund flow. This requirement could potentially result in deferring payments to the US Treasury if net proceeds were insufficient for BPA to make its annual payment to the US Treasury. The deferral provides a source of financial flexibility for worst-case situations.



Energy Northwest (1)

Financial Performance (fiscal year ended 6/30 \$000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating revenues	\$438,232	\$494,126	\$583,217	\$462,967	\$437,396	\$424,651	\$425,85	\$401,980	\$432,366	\$428,111	\$421,513	\$453,140
Investment income	19,707	15,636	16,774	18,410	21,485	17,452	17,523	16,077	16,871	48,911	23,967	13,321
Gross revenue and income	457,939	509,762	599,991	481,377	458,881	442,103	445,410	418,057	449,237	477,022	445,480	466,461
Nuclear fuel	14,851	24,456	29,652	24,642	23,218	24,037	24,037	23,978	30,744	34,204	30,311	27,061
O&M	112,960	121,577	134,064	127,275	107,660	101,102	101,685	95,354	104,859	145,486	118,064	161,302
Other	47,268	47,836	58,675	54,976	56,469	44,271	44,271	46,791	51,717	48,166	47,332	50,560
Total O&M expenses	175,079	193,869	222,391	206,893	187,347	169,410	169,410	166,123	187,320	227,856	195,707	238,923
Net revenues	282,860	315,893	377,600	274,484	271,534	272,693	276,000	251,934	261,917	249,166	249,773	227,538
Interest expense	169,227	169,759	171,111	165,225	165,188	134,622	151,796	144,525	137,215			
Principal and interest expense (1)	183,906	177,473	185,524	173,740	217,771	209,847	227,021	276,490	274,040	301,641	256,581	140,976

(1) Columbia Generating Station; Projects 1 and 3 have been terminated and remaining debt is paid from nonoperating revenues and debt-service balances.

Bonneville Power Administration

Financial Performance (fiscal years ended 9/30 \$000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales to NW public utilities	\$965,849	\$1,031,186	\$1,203,708	\$1,168,661	\$1,017,035	\$925,152	\$748,507	\$898,744	\$934,270	\$939,362	\$1,797,496	\$1,723,138
Aluminum industry	408,024	351,178	391,389	490,684	399,359	274,409		322,517	363,454	420,694	58,454	18,480
Investor-owned utilities in NW	291,660	299,953	302,881	325,233	402,962	415,343	450,555	407,317	649,449	700,836	377,789	435,709
Sales outside NW	60,025	75,262	76,461	132,060	336,736	373,295	438,894	586,139	652,221	1,084,077	632,261	628,242
Wheeling and other sales	137,569	128,429	167,256	204,289	194,818	221,652	343,586	355,290	402,197	1,132,729	660,436	805,324
Other power sales	65,673	56,451	54,253	64,898	76,691	62,186	55,585	48,871	38,578	972	1,293	1,211
Total operating revenues	1,928,803	1,942,459	2,195,948	2,385,825	2,427,601	2,272,037	2,313,253	2,618,879	3,040,169	4,278,669	3,533,729	3,612,104
O & M	998,541	1,012,082	1,021,893	951,704	986,780	882,383	1,088,828	1,116,045	1,520,408	3,247,059	2,462,591	2,097,563
Net-billed debt service	470,532	432,287	461,482	465,626	470,940	440,555	520,452	625,404	535,460	455,397	213,919	104,329
Non-net billed debt service	5,498	5,258	7,729	19,210	27,182	23,368	24,914	25,688	25,139	21,818	16,256	15,205
Total nonfederal project debt service	476,030	437,535	469,211	484,836	498,122	463,922	545,366	651,093	560,599	477,215	230,175	119,534
Residential exchange	201,976	209,994	159,876	198,186	196,074	161,028	63,869	63,619	63,593	68,082	143,983	143,967
Federal projects depreciation	212,349	220,073	229,354	254,738	277,083	272,672	287,692	309,183	319,942	323,314	335,205	350,025
Net operating revenue	39,907	62,765	315,614	496,361	469,542	492,032	327,498	478,939	575,627	162,999	361,775	901,015
Net interest expense on federal investment and treasury debt service	313,500	359,725	376,275	397,594	373,685	374,215	375,952	355,653	334,650	331,909	352,300	345,591
Net revenues (loss)	(273,593)	(296,960)	(60,661)	98,767	95,857	117,817	-48,454	123,285	240,977	-337,401	9,475	555,424
Total sales (average MW)	8,820	9,045	8,460	9,177	11,647	11,510	10,165	11,394	11,361	10,302	11,732	10,764

BPA Debt Service Coverage and U.S. Treasury Payments (\$000)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net revenue available for Treasury (1)	\$409,638	\$678,257	\$882,033	\$880,714	\$909,587	\$760,077	\$948,159	\$1,058,190	\$671,235	\$895,034	\$1,449,579
Corps and Bureau O&M	126,800	133,829	130,934	134,089	144,883	144,887	160,037	162,621	184,922	198,055	198,539
Net interest expense	359,725	376,275	397,594	373,685	374,215	375,952	355,653	334,650	331,909	352,300	345,591
Amortization of principal	248,963	193,237	478,091	290,010	207,971	246,955	190,984	289,925	210,127	505,012	543,747
Total amount paid to Treasury	753,857	718,259	1,019,211	813,823	803,236	840,704	780,001	863,248	808,221	1,137,784	1,174,221
Revenues available for other purpose	(344,219)	(40,002)	(137,178)	66,891	106,351	-80,627	168,157	194,942	-136,986	-242,750	275,358
Non-Federal Project Debt Service Coverage Ratio (x)	1.9	2.4	2.8	2.8	3.00	2.4	2.5	2.9	2.4	4.9	13.1
Available reserves							670,000	803,000	593,000	188,000	511,000

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