STANDARD & POOR'S PUBLIC FINANCE

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

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Credit Profile

$187.735 mil col gen station rfdg elec rev bnds (Bonneville Pwr Admin) ser 2003 A due 07/01/2015
AA-
Sale date: 18-MAR-2003

$238.925 mil prj #1 rfdg elec rev bnds (Bonneville Pwr Admin) ser 2003 A due 07/01/2017
AA-
Sale date: 18-MAR-2003

$244.995 mil prj #3 rfdg elec rev bnds (Bonneville Pwr Admin) ser 2003 A due 07/01/2017
AA-
Sale date: 18-MAR-2003

$17.775 mil prj #1 rfdg elec rev bnds (taxable) (Bonneville Pwr Admin) ser 2003 B due 07/01/2009
AA-
Sale date: 18-MAR-2003

$4.495 mil col gen station rfdg elec rev bnds (taxable) (Bonneville Pwr Admin) ser 2003 B due 07/01/2009
AA-
Sale date: 18-MAR-2003

$20.14 mil prj #3 rfdg elec rev bnds (taxable) (Bonneville Pwr Admin) ser 2003 B due 07/01/2009
AA-
Sale date: 13-MAR-2003

AFFIRMED
Eugene, Oregon
$58.326 mil. Eugene (Bonneville Pwr Admin) (Trojan Nuclear Proj)
AA-

Conservation and Renewable Energy Sys, Oregon
$31.465 mil. Conservation and Renewable Energy Sys (Bonneville Pwr Admin) conserve resource proj
AA-

Lewis Cnty Pub Util Dist, Oregon
$163.215 mil. Lewis Cnty Pub Util

Rationale

The outlook revision to negative from stable on Energy Northwest's debt, secured by payments from the Bonneville Power Administration, reflects the increasing likelihood that Bonneville and its customers will decide to use cash savings provided by the debt optimization program, specifically the $315 million cash savings in fiscal year 2003 that is planned to be used for the prepayment of Treasury debt, to finance current operating expenses instead of using the money to pay down more expensive Treasury debt, as originally intended when the debt optimization plan was constructed. Financial pressures on Bonneville resulting from weak hydrology conditions and the high cost of replacement power have culminated in the deterioration of reserves to $188 million at the end of fiscal 2002 from $811 million at the end of fiscal 2000. Now that reserves have been depleted, ongoing cost pressures are prompting calls from Bonneville's customers to use debt optimization savings to offset the need for additional rate increases rather than to prepay Treasury debt, which would essentially hold the overall debt levels of Bonneville at a stable level. The decision to extend debt instead of using rate increases to cover costs through fiscals 2003-2006 is not reflective of a 'AA' category credit even with the structural advantages afforded to the Energy Northwest bonds by the net billing agreements, which allows for payment of the debt service before any and all operating expenses or other debt obligations of Bonneville.

The preservation of the 'AA-' rating will depend on successful implementation of the Safety-Net Cost Recovery Adjustment Clause (SN CRAC) in the summer of 2003, which is expected to provide additional revenues in fiscal 2004 through a 16% net rate increase. Liquidity in fiscal 2003, however, will depend on the use of cash tools such as the $250 million line of credit in order to allow Bonneville to end fiscal 2003 with a minimum of between $100 million and $200 million in reserves. In addition, Bonneville has revised its projections of revenues from wholesale power sales down by $650 million during fiscals 2003-2006, as it had been optimistic due to high projected wholesale prices that were above actual prices being achieved in the market.

The 'AA-' rating on the Energy Northwest debt reflects the following credit strengths:

- Legal payment of the $5.9 billion in Energy Northwest (formerly the Washington Public Power Supply System) obligations as an operating expense of Bonneville through the net billing agreements, which are senior to approximately $7 billion in outstanding Treasury debt and federal obligations. This offers bondholders the assurance of over 2.0x coverage as long as sufficient revenues are collected to meet all of Bonneville's debt obligations, including the Treasury debt;

Dist (Bonneville Pwr Admin) (Cowlitz Falls Hydroelec Proj) ser 1991 1993
AA-

Bonneville Pwr Admin, OregonEnergy Northwest, Oregon
$2.380,680 bil. Energy Northwest (Bonneville Pwr Admin) Sub Lien
AA-

$186.600 mil. Energy Northwest rfdg elec rev bnds (Columbia Generating Station) ser 2001-A dtd 03/22/2001 due 07/01/2013-2017
AAA/AA-(SPUR)

$208.755 mil. Energy Northwest Proj No. 3 rfdg elec rev bnds ser 2001-A dtd 03/22/2001 due 07/01/2001-2004 2010 2011 2017 2018
AAA/AA-(SPUR)

$25.675 mil. Energy Northwest rfdg elec rev bnds (Project No. 3) ser 2001-B subseries B-3-1, B-3-2, B-3-3 dtd 05/09/2001 due 07/01/2018
AAA/AA-(SPUR)

$48.000 mil. Energy Northwest rfdg elec rev bnds (Columbia Gen Station) ser 2001-B dtd 05/09/2001 due 07/01/2018
AAA/AA-(SPUR)

$23.600 mil. Energy Northwest rfdg elec rev bnds (Project No. 1) ser 2001-B dtd 05/09/2001 due 07/01/2017
AAA/AA-(SPUR)

Energy Northwest, Oregon
$104.770 mil. Energy Northwest Proj No. 1 rfdg elec rev bnds ser 2001-A dtd 03/22/2001 due 07/01/2001-2002 2004 2007 2010-2013
AAA/AA-(SPUR)

OUTLOOK:
NEGATIVE

- Structural advantages offered by the net billing agreements provide that, beginning on July 1 of each year, cash to pay each Bonneville wholesale power bill is sent directly from approximately 100 Energy Northwest participants (all Bonneville customers) to Energy Northwest to pay operating expenses and debt service on the Energy Northwest debt. Only once each participant's Energy Northwest obligations are met do participants begin sending payments to Bonneville to fund Bonneville's operating and remaining debt obligations.
- The presence of rate setting authority in Bonneville's existing contracts, including three separate Cost Recovery Adjustment Clauses (CRACs), and political support to use those CRAC mechanisms that should allow Bonneville to maintain strong debt service coverage on the Energy Northwest debt as well as meet its scheduled Treasury repayments;
- Generation rates remain reasonable and competitive at approximately 3.0-3.4 cents per kilowatt-hour (kWh) as of April 1, 2003, despite low hydrology and the high cost of replacement power. The anticipated SN CRAC increase will raise rates to between 3.2-3.6 cents/kWh as of Oct. 1, 2003;
- Successful implementation of the "Slice" product that allocates 22% of the federal system to purchasers who are obligated to pay a percentage of the system costs in return for a percentage of system output, reducing Bonneville's exposure to low water flow, although Bonneville retains full operational authority over the system. This benefit is mitigated by the increased operating and financial risk that it places on Bonneville's customers who select this product;
- Limited exposure to low water levels, currently around 70% of normal, in the 2003 water year because of Bonneville's current long position resulting from the economic recession in the region and the shutdown of approximately 1,500 average MW (aMW) of industrial load at the aluminum smelters. Lower water is resulting in higher market energy prices in the Northwest, which is increasing the amount of revenues Bonneville receives from wholesale sales.

Rating concerns that could prompt a downgrade include:

- The use of any debt restructuring savings to offset current operating expenses, which would constitute a deferral of the cost recovery needed into future years;
- Failure to implement an adequate SN CRAC, which is needed at 16% absent any additional cost cuts, to keep reserves at a minimum operating level; or
- Any "restructuring" of federal Treasury obligations, although Bonneville does have the legal flexibility to "restructure" its federal obligations at any time with minimal financial penalties.

Although Standard & Poor's Ratings Services realizes that Bonneville is under intense financial pressure and that deferring some costs into years beyond 2006, when the "augmentation costs" and the responsibility to serve approximately 1,500 aMW of Direct Service Industrial (DSI) load go away, is an attractive option to customers, the use of these short-term solutions are not reflective of a 'AA' credit.

Liquidity.
As mentioned above, Bonneville's liquidity of only $188 million at the end of fiscal 2002 remains seriously constrained, and it has limited liquidity tools available--

primarily the $250 million federal line of credit that is not intended to be used for ongoing operations and the anticipated $315 million in cash savings that is expected to be produced by this $1.2 billion debt restructuring. Although the use of the $315 million in 2003 provides some liquidity flexibility, its use would be at the cost of extending existing debt obligations and would be viewed as a negative credit factor. Offsetting liquidity concerns is the real ability of Bonneville to reschedule payments related to its federal obligations, which account for over half of Bonneville's $13 billion in total outstanding debt obligations.

Outlook

The negative outlook reflects concern that the stringent effects of prior rate increases coupled with ongoing revenue shortfalls have prompted Bonneville and its customers to consider solutions to its financial challenges that will avoid rate increases. The solutions under consideration, however, are not supportive of credit quality at the current rating level. Bonneville has announced its intent to trigger the SN CRAC and is proceeding with a rate case that will require final FERC approval. Ongoing revenue shortfalls from wholesale revenues, despite higher prices due to low water conditions, have prompted a discussion of reducing the probability of Treasury repayment, which was previously considered unthinkable by both Bonneville and its customers. Although no party is encouraging missing a payment to Treasury, Bonneville's decimated reserves, limited liquidity options, and the time lag between the implementation of the SN CRAC and the collection of the additional revenues make the non-payment of Treasury a real possibility in the next two years. The use of debt restructuring savings for current operations or any delay in the repayment of scheduled Treasury payments would prompt a rating downgrade, even though bondholders have a legal priority on revenues through the net billing agreements.

Challenges That Led To Bonneville's Current Financial Condition

Low hydrological conditions.

The low hydrological conditions that impacted most utilities in the Northwest in the 2001 water year also took a toll on Bonneville. Bonneville had long-term, fixed-price contracts with its customers at between $20 per megawatt-hour (MWh) and $25/MWh, which expired at the end of the 2001 fiscal year (September 30). Although contract allocations were based on critical water level (the lowest water level on record), Bonneville was purchasing power in the market to meet contracted demand at market prices that had skyrocketed to $600/Mwh-$700/MWh due to high natural gas prices, California's failed deregulation attempt, and low hydrological conditions. The revenues that Bonneville recovered from the fixed-price contracts were clearly insufficient to cover costs. As a result, Bonneville's reserves were reduced to $625 million as of Sept. 30, 2001 from $811 million the prior year. The fact that the loss was kept under $200 million resulted from federal allowances of fish credits of approximately $600 million against payments owed to the U.S. Treasury, up from $60 million in fiscal 2000, to cover the market value associated with water spilled to protect fish and other operations and maintenance costs for fish. The unusually high amount of fish credits was directly related to exceptionally high power market prices and the corresponding market value of the foregone energy in water sent over the dams instead of through the turbines. Although Bonneville spilled less water in 2001 because of the power emergency, the value of the water that was spilled was much higher.

Higher demand.

Bonneville signed new contracts with its preference customers effective Oct. 1, 2002 through Sept. 30, 2006. The demand on Bonneville for this five-year period is substantially higher (11,000 aMW) than Bonneville's allocated resources (8,000 aMW). Bonneville closed the 3,000 aMW gap by signing longer-term contracts for approximately 1,000 aMW and reached load buyback and load reduction agreements with customers for the remaining amount. The demand was higher because many of Bonneville's preference customers had experienced load growth. More importantly, Bonneville continued to serve approximately 1,500 aMW of DSI load that it was no longer legally obligated to serve. Bonneville is currently selling almost no power to the DSIs because of load buyback agreements that Bonneville signed with the DSIs and because of the significant curtailment of operations. Although the DSIs have a "take-or-pay" obligation under their five-year contracts with Bonneville, two DSIs (Kaiser Aluminum and Longview Aluminum) have declared bankruptcy and are no longer paying on approximately 570 aMW of the load for which Bonneville has procured power under "augmentation" contracts. Bonneville has an unsecured claim against Kaiser Aluminum in its bankruptcy proceeding for $78 million and could seek $50 million from Longview Aluminum.

The new five- and 10-year contracts that took effect on Oct. 1, 2002 have a significant change in Bonneville's ability to adjust rates for purchased power costs--they can change every six months. This is a radical departure from the previous contracts, which were fixed-price for the five-year duration of the contract. The six-month rate adjustments are triggered only when necessary rather than for the purpose of collecting in advance substantial reserves against price volatility.

Optimistic wholesale revenue projections.
Ongoing financial pressure is the result of overly optimistic wholesale revenue projections that have not materialized due to now-low wholesale energy prices in the West. Cost projections are also significantly higher that what was anticipated in the original 2001 rate case. In fiscal 2002 additional cash reserves were spent down to cover operations and to meet all of Bonneville's financial obligations. However, reserves are currently at a low of $188 million, not likely to be sufficient to get Bonneville through fiscal 2003 without some additional liquidity tools.

Business Description

Bonneville is one of four regional federal power marketing agencies within the U.S. Department of Energy and is subject to its authority and that of the executive branch of the federal government. Bonneville acts as the federal marketing agent for all of the federally owned hydroelectric projects in the Pacific Northwest. It also markets the power from five non-federally owned hydroelectric projects as well as for the Columbia Generating Station, a 1,150 aMW nuclear plant near Richland, Wash. Wholesale rates must be approved by the FERC, which must ensure, through final rate approval, that Bonneville recovers its costs in amounts sufficient to assure repayment of approximately $7.54 billion of federal debt (repaid by Bonneville to the federal government with interest. Power is sold to more than 100 publicly owned and cooperatively owned utilities (preference customers) for resale to retail consumers in the Pacific Northwest (Washington, Oregon, Idaho, and western Montana). Bonneville also makes sales to investor-owned utilities and directly to certain industrial customers.

Economy

Bonneville's primary customer service area is the Pacific Northwest region, comprising Oregon (GO rating 'AA'/Negative); Washington (GO rating 'AA+'/Negative); Idaho (not rated); western Montana (state GO rating: 'AA-'/Stable); and small portions of California (GO rating: 'A'/Stable); Nevada (GO rating:

'AA'/Stable); Utah (GO rating: 'AAA'/Stable); and Wyoming (issuer credit rating: 'AA'/Stable). The service area has a population of approximately 10 million people. Electric power sold by Bonneville accounts for around 45% of the power consumed within the region.

Bond Security and Net Billing Agreements

The Energy Northwest bonds are secured by net billing agreements between Bonneville and approximately 100 participants on each project. The net billing agreements require each participant to purchase a share of the project on an unconditional basis, subject to a 25% step-up provision. The participants have assigned their share of the output in each of the three projects (although projects No. 1 and No. 3 were never completed and do not operate) to Bonneville, which obligated Bonneville to repay the participants for their share of the project costs. Bonneville is ultimately the obligor on the bonds, although the flow of funds structure of the net billing agreements provides important credit support to the rating on the bonds.

In practice, net billing begins each year on July 1. When the participants, who are all customers of Bonneville, receive their monthly bills from Bonneville, the participants pay the amount of their Bonneville power bill directly to Energy Northwest for deposit with the trustee for the respective three projects. Once each participant has met its obligation to Energy Northwest on each project, then it begins sending payments directly to Bonneville. With Bonneville's recent rate increases, the Energy Northwest obligations are now almost paid in full in approximately four months. Legally, operating expenses and debt service for the Columbia Generating Station and Project No. 1 and No. 3 debt service are paid before all other Bonneville operating expenses or other debt obligations, including approximately $7 billion owed to Treasury. The funds for debt are paid directly by the 100 participants to Energy Northwest, and the funds are never commingled with Bonneville's own revenues.

Although this structure provides credit support to bondholders, since the funds are paid by a diverse group of participants and the money flows directly to Energy Northwest from the customers, Bonneville remains the ultimate obligor on the bonds. If a participant defaulted or if the amount paid by the participant in one year was less than its full obligation as a participant in the Energy Northwest projects, Bonneville is required to make the remaining payments to Energy Northwest for project costs, including debt service, without an additional appropriation from Congress. Although Bonneville's initial budget, which is approved by Congress annually, includes amounts sufficient to meet the net billing requirements, an unanticipated default by one or more participants would not have been included in the annual revenue requirement. If Bonneville were required to make additional payments to Energy Northwest on the bonds, the payment would be senior to the repayment of Bonneville's Treasury obligations.

Debt Optimization Plan and Existing Debt Structure

Energy Northwest and Bonneville began a debt optimization plan in 2000. The plan will extend the final maturity of the Energy Northwest debt from 2012 to 2018, which is consistent with the useful life of the Columbia Generating Station. Savings provided by the extension of debt service will be used to prepay Treasury debt. The prepayment of Treasury debt allows Bonneville to reduce its cost of borrowing by repaying higher coupon debt first (the average rate on the Treasury debt is 6.7% while the average coupon on the Energy Northwest debt is 5.5%), and the repayment of Treasury debt also frees up capacity under Bonneville's federal borrowing cap.

As of March 1, 2003, Energy Northwest had approximately $5.9 billion in outstanding Project No. 1 and No. 3 and Columbia Generating Station Revenue bonds outstanding for which Bonneville is the obligor. Approximately $1.7 billion is subordinate-lien debt. The prior-lien indentures are closed on all three projects, so no additional debt will be issued that is prior to the subordinate-lien bonds. Bonneville and Energy Northwest will continue to refund prior-lien debt with subordinate debt as part of its debt optimization plan. The series 2003 bonds will refund another approximately $1 billion of prior-lien bonds with subordinate-lien bonds. No rating distinction is made between the two liens because both are paid as an operating expense of Bonneville, the senior lien is closed, and all $5.9 billion of the Energy Northwest debt is paid senior to an additional $7.54 billion in Treasury obligations and federal appropriations.

While nuclear energy from the Columbia Generating Station is a small percentage of total firm resources (approximately 9% in 2003), the $5.9 billion of total prior and subordinate lien debt associated with this and other non-operating nuclear obligations accounts for 45% of Bonneville's $13.5 billion of total obligations. Bonneville's other obligations consist of $4.7 billion of federal appropriations that must be repaid and $2.8 billion of bonds issued by Bonneville and sold to the U.S. Treasury. Bonneville has generated consistently solid debt service coverage on the Energy Northwest debt obligations--more than 2x since 1994--due to the revenues necessary to cover the subordinate federal appropriations and Treasury obligations.

Bonneville has the legal authority to "reschedule" its $7.54 billion in federal obligations if revenues are insufficient. Policies for repayment of federal debt are spelled out in the Department of Energy "administrative interpretation of legal history" from 1979. This was taken from the legislative history section of the 1966 Grand Coulee Dam Third Power Plant Act that described Bonneville's repayment methodology. The practice is that Bonneville completes a "repayment study" during every rate case that defines what they will repay the federal Treasury in each of the rate case years. Bonneville does not deviate from this once it is set, although it has the flexibility to do so. The only legal penalty that can be assessed on Bonneville for missing a scheduled federal repayment is by the Secretary of the Treasury, who has the option to assess a 1% interest penalty on the amount Bonneville said it would pay to Treasury during that year and did not. This penalty is discretionary and was put into place in the Regional Act of 1980. Bonneville did miss federal payments in 1982 and 1983 because of low water conditions, but the 1% penalty was not applied.

The $1.2 billion bond refunding in 2003 extends debt at Energy Northwest into the future and provides approximately $240 million of current cost savings in fiscal 2003. This amount plus $75 million from previous advance refunding debt extensions will be used to prepay Treasury. Approximately $300 million of the debt (series 2003D and 2003E) will be issued as VRDBs with liquidity facilities securing the bonds. Approximately $200 million in series C bonds will be issued as auction rate securities and will be insured. This $500 million will have two separate synthetic variable-to-fixed rate swamps at 68% of LIBOR. The remaining $700 million will be issued as fixed-rate term bonds and portions will be insured.

Off-Balance Sheet Obligations

Bonds issued by the following issuers are paid as operating expenses of Bonneville. Although these projects are not net billed like the Energy Northwest debt and the Eugene Trojan Nuclear Project bonds, the approximately $300 million remaining on these four issues still receive substantial credit support in terms of their priority position in debt repayment as compared to the $7.54 billion of federal debt.

- Lewis County (Cowlitz Falls)
- Northern Wasco (McNary Dam)
- Tacoma
- Conservation and Renewable Energy System

Regulation

Bonneville is one of four regional federal power-marketing agencies within the U.S. Department of Energy and is subject to its authority and that of the executive branch of the federal government. Bonneville acts as the federal marketing agent for all of the federally owned hydroelectric projects in the Pacific Northwest in addition to power from five non-federally owned hydroelectric projects and power generated by the Columbia Generating Station. Bonneville's budget is reviewed by the Office of Management and Budget prior to its submittal to Congress. Bonneville is a self-financing entity, required to pay its costs from revenues it receives from the sale of power and the provision of transmission and other services. Bonneville's rates are subject to approval by FERC on the basis that they recover Bonneville's costs and are sufficient to assure repayment of the Treasury debt. FERC's authority to review rates is established in the Northwest Power Act. Appeals of FERC's approval may be made in the United States Court of Appeals for the Ninth Circuit.

Although Bonneville is subject to rate regulation by FERC, much of the process of deliberation with intervening parties occurs before the rate case reaches FERC. Bonneville must hold hearings and give its customers the opportunity to comment. The Administrator of Bonneville will then determine the final proposal and submit a Record of Decision to FERC for approval or denial. The SN CRAC that was announced by Bonneville on Feb. 7, 2003 is currently going through this process. Bonneville expects to submit a Record of Decision to FERC in July 2003.

Markets

Bonneville markets the majority of the power under its control to more than 100 publicly owned and cooperatively owned utilities (preference customers) for resale to consumers in the Pacific Northwest. Bonneville also typically makes sales to investor-owned utilities and directly to eight remaining DSI customers. Excess power is offered first to those within the region and then may be sold outside the region.

As contracts expired in 2001, many preference customers returned load to Bonneville, and the decision was made to continue to serve the direct service industrial customers (DSIs), which resulted in a much greater demand for wholesale power than was initially anticipated. This reflected Bonneville's competitive rates as compared to rising market prices and native load growth in the region. In addition to Bonneville's own approximately 8,500 aMW of firm capacity, based on conservative critical water year scenarios used by Bonneville to project capacity, approximately 3,000 additional aMW were needed to meet the subscription amounts for 2002. Approximately 1,000 aMW were procured through long-term, power-purchase contracts, another 1,000 aMW were procured through load buyback contracts, some of which are currently above market, and the remaining amounts needed to fluctuate with demand, weather conditions, and are generally produced by excess generation in the system.

Operations

The U.S. Army Corps of Engineers and the Bureau of Reclamation are the owners and operators of the 30 federally owned hydro projects on the Columbia and Snake Rivers. Bonneville markets and distributes the power generated from these federal dams. Bonneville also owns and operates about 75% of the Northwest's transmission system. The dams and the electrical system are known as the Federal Columbia River Power System. Revenues collected through power rates cover the operation of these projects and the transmission system, cover the debt service required to repay the initial investment in the system, and contribute to other costs associated with these projects, such as the region's efforts to protect and rebuild fish and wildlife populations in the Columbia River Basin.

Energy Northwest operates the Columbia Generating Station on land leased from the U.S. Department of Energy on the Hanford Site near Richland, Wash. The station began operation in December 1984. The unit is licensed to run for 40 years, until 2024, though Energy Northwest intends to re-license Columbia Generating Station by 2024, extending its useful life to 2044. At full power, the station supplies Bonneville with 1,150 aMW.

Over the past six years, Energy Northwest has undergone a concerted effort to cut the cost of power from its commercial nuclear plant while greatly increasing plant efficiency and reliability. The cost of electricity generated at the Columbia Generating Station dropped to 2.06 cents/kWh in fiscal 2002 from 3.45 cents/kWh in fiscal 1994. This was accomplished by reducing the plant's annual operating budget, including downsizing staff. Debt service in 2002 added another 4.40 cents/kWh, reflecting the substantial debt still associated with the facility.

In fiscal 2002, plant availability was 95.4% and plant capacity was 92.0%. Future availability and capacity factors are expected to remain good. Energy Northwest has a planned outage for spring of 2003.

Bonneville had four power purchase agreements with Enron Power Marketing Inc. when Enron Corp. and a number of its subsidiaries filed for bankruptcy in 2001. Bonneville terminated two of the contracts that did not have punitive termination provisions but continues to receive approximately 200 aMW per month from the remaining two contracts with Enron. The contracts are currently out of market, and Enron continues to have an economic incentive to deliver under the contracts.

Transmission

Bonneville continues to participate and support efforts to create a regional transmission organization (RTO West): Bonneville owns approximately 70% of the high-voltage transmission in the region that would ultimately be administered by RTO West. Preliminary discussions envision a strong centralized planning function, although utilities would maintain ownership of their assets. Utilities would maintain their transmission rates as a postage stamp rate is phased in over some period of time. The utilities that filed the RTO West proposal with FERC continue to respond to the issues raised by FERC in its September 2002 order in which FERC encouraged some adjustments to the proposal.

It remains unclear if the economics of a centralized RTO West offer an economic incentive over the current structure. Two customer groups have filed a petition in the United States Court of Appeals requesting that FERC's rulings related to the RTO West be set aside or modified. The primary customers concerns are regarding cost increases associated with the RTO West and operational reliability.

Competitive Position

Bonneville's wholesale rates remain competitive in the region. However, the rate process over the past two years and the current projections for additional rate increases have led some stakeholders in the region to call for a greater share of Bonneville's power to be distributed on a "Slice" basis following the current contract expirations in 2006. This would likely represent a shift in hydrological and operational risk from Bonneville to its customers. Although this would represent a large shift in the business strategy of Bonneville, from the initial discussions, it appears there is a chance that this shift might reduce risk to Bonneville. Finances

Bonneville ended fiscal 2002 (September 30) with a $373 million net loss on the power business line. This loss required some use of cash reserves to meet Bonneville's $790 million scheduled Treasury payment plus additional pre-payment of $266 million on Sept. 30, 2002. As a result, cash reserve levels fell to $188 million at the end of the fiscal year, dropping to a point that raises concerns regarding liquidity and cash flow. The last time reserves were similarly low was at $227 million in fiscal 1995. Initial projections for power business line operations in fiscal 2003 are slightly stronger with a projected net revenue loss of $195 million. However, given the diminished level of its reserves, Bonneville can no longer absorb the net revenue losses with existing reserves as it has done the past two years. Current projections show that Bonneville could end the year with net revenues between negative $160 million and positive $40 million. With the potential use of some of the $250 million federal line of credit to supplement liquidity levels, reserves should fall between $100 million and $200 million.

Future financial projections assume that the load base CRAC decreases over the next five years, as purchased-power costs decrease. However, wholesale rates will experience net increases as the financial based CRAC remains in place and the SN CRAC is additionally put into place, resulting in a net 16% increase to customers. The FB CRAC recovers approximately $100 million per year and the SN CRAC is projected to recover $300 million per year. Bonneville will have the opportunity to reset its base rates in the 2006 rate case, but, at that time, the cost structure should decrease, since all of the load buyback and higher priced purchased-power contracts should have terminated.

The SN CRAC has not received final approval yet, but in its current proposed form, Bonneville anticipates reducing the historical 80%-88% five-year probability of meeting the Treasury payment to a 50% annual probability that Bonneville can make all of its Treasury payments in fiscals 2004-2006 and at least an 80% probability that Bonneville will be able to make all of its fiscal 2006 payments, including repayment of any amounts missed in fiscal years 2003-2005. This is a substantial increase in risk to Treasury.

Bonneville Power Administration's Selected Financial Information				
($000)	**2002**	**2001**	**2000**	**1999**

Total operating revenue	3,456,975	3,630,084	2,980,169	2,592,532
U.S. Treasury credits	38,400	600,708	60,000	26,346
Net revenue available for non-federal debt	888,801	915,651	1,618,789	1,599,250
Debt service	230,175	477,215	560,836	651,093
Debt service coverage (DSC; x)	3.86	1.92	2.89	2.46
DSC of all obligations (x)	1.00	1.02	1.26	1.18
Unrestricted cash	235,409	667,306	848,447	685,014
Non-federal debt (Energy Northwest)	5,958,538	5,954,490	6,053,027	6,379,997
Federal debt	7,159,056	7,229,559	7,012,943	6,833,658
Total debt/total capitalization (%)	86.9	86.7	84.2	85.3
Days' operating cash	30	64	144	137

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