

## Energy Northwest, WA's Electric Refunding Bonds Rated 'AA-'

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SAN FRANCISCO (Standard & Poor's CreditWire) April 13, 2001 -- Standard & Poor's today assigned its double-'A'-minus rating to **Energy Northwest**, Wash.'s \$103.4 million electric refunding revenue bonds (Columbia Generating Station), series 2001B; \$23.05 million electric refunding revenue bonds (Project No. 1), series 2001B; and \$24.93 million electric refunding revenue bonds (Project No. 3), series 2001B, issued for the **Bonneville Power** Administration (BPA). The bonds are on parity with approximately \$500 million in subordinate lien Energy Northwest bonds, Series 2001A issued in March 2001 and are scheduled to sell on April 17, 2001. The outlook is stable.

The rating reflects BPA's role as the bonds' ultimate obligor. BPA makes debt service payments under net billing agreements between BPA and Energy Northwest. Under the net billing agreements, BPA is required to purchase from and pay participants of the three nuclear projects for the capacity of the three projects, including debt service on revenue bonds issued to finance the costs of construction, whether or not each net billed project is completed, operable, or operating.

The existing double-'A'-minus rating has been affirmed on approximately \$5.5 billion of outstanding senior-lien revenue bonds (following the refunding) issued by Washington Public Power Supply System for nuclear projects 1, 2, and 3. No rating distinction is made between the two liens because both are paid as an operating expense of BPA and are senior to an additional \$6.5 billion in treasury obligations and federal appropriations.

The double-'A'-minus rating reflects:

- BPA's capacity to meet total obligations, including its treasury payment obligations, enhanced by BPA's new SLICE product, which allows the utility to share a portion of weather-related risks with wholesale customers;

- BPA's ability and willingness to pass through augmentation power costs (necessary to serve approximately 3,000 MW over-subscription for BPA's resources during the 2002-2006 contract period) directly to wholesale customers through the current proposal in the rate case to adjust rates every six months;

- Flexibility to deviate, if necessary, from the biological opinion governing operations of the Federal Columbia River Power System in order to provide sufficient power needs and revenues to meet BPA's financial obligations; and

-- Sufficient cash reserves of \$300 million-\$500 million, after the September treasury payment is met, projected at fiscal year-end September 2001, assuming a continuation of low water conditions, current market prices, and that biological opinion spill and flow targets are not fully achieved.

Rating concerns include the overall economic implications in the region resulting from significantly higher power costs and weaker legal provisions on the subordinate-lien bonds, such as the absence of a debt-service reserve fund, mitigated by the substantial revenues collected in excess of Energy Northwest obligations in order to pay subordinate treasury obligations.

Current forecasts indicate that BPA will likely need wholesale rate increases averaging 60% over the next five years, with up to 90%-100% in the first year, or up to 250% in the first year if current subscription amounts are not reduced. The increases are the result of augmentation costs associated with purchasing 3,000 MW of additional power at market prices, which will be blended with 8,000 MW of its own generation through the federal hydro-electric projects it administers and output from Columbia Generating Station (formerly Nuclear Project No. 2) to produce a blended cost to customers below current market prices. The ability to pass these augmentation costs through to customers, with a proposed six-month adjustment mechanism in rates, should continue to support current credit quality, even given unusually high market power prices. These wholesale rate increases will lead to rate increases across the region as BPA passes the higher costs through to its customers, which could cause load decreases and reduce the additional 3,000 MW that BPA must purchase.

BPA's historically strong reserve levels, approximately \$810 million at the end of fiscal 2000, will be drawn down by the end of fiscal 2001 as a result of low water conditions and the high cost of replacement power in the market to serve current customers. However, BPA forecasts that reserves will likely remain between \$300 million and \$500 million at the end of fiscal 2001 due to the decision to run the river system for power rather than meet all the flow and spill requirements in the biological opinion, an option available to BPA in emergency conditions. Additionally, BPA has an exposure to the California power exchange and independent system operator of approximately \$120 million. Defaults on these amounts could lead to further deterioration of cash reserves.

#### **OUTLOOK: STABLE**

The outlook reflects the expectation that BPA will operate the system to balance power and fish needs, while maintaining sufficient cash reserves to meet all financial obligations, and that BPA will successfully pass through augmentation costs associated with market power purchases to

customers during the 2002-2006 rate case, Standard & Poor's said. -- CreditWire