

**Rating Action: Moody's assigns Aa1 to BPA's Series 2016-2 bonds issued through the Port of Morrow (OR); Outlook is stable.**

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New York, June 14, 2016 -- Issue: Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 5) Series 2016-2 (Federally Taxable); Rating: Aa1; Rating Type: Underlying LT; Sale Amount: \$125,000,000; Expected Sale Date: 06/21/2016; Rating Description: Revenue: Government Enterprise;

Summary Rating Rationale

Moody's Investors Service has assigned Aa1 ratings to Port of Morrow's (OR) \$125 million Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 5) Series 2016-2 (Federally Taxable). The rating outlook is stable.

The Aa1 rating on Port of Morrow's transmission bonds reflects Bonneville Power Administration (OR)'s (BPA, Aa1/stable) unconditional lease payment obligation directly to the bond trustee, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating. Port of Morrow's role is solely as a conduit issuer. The Aa1 rating assumes final documentation according to our current understanding of the transaction.

BPA's Aa1 issuer rating reflects its fundamental credit strengths comprising of United States of America, Government (Aaa stable) support features, strong underlying hydro and transmission assets, competitive power costs, and long-term power supply contracts with customers through 2028. Explicit US Government support features include borrowing authority with the US Treasury (\$3.0 billion available as of September 30, 2015) and the legal ability to defer its annual US Treasury debt repayment if necessary. BPA's importance to the US Northwest region and its role as a US government agency represent drivers of implicit support. US federal government's strong explicit and implicit support features are key credit strengths that support BPA's Aa1 rating even though BPA faces weaknesses outlined below.

BPA's rating also considers long-term credit challenges such as hydrology and wholesale market price risk, 'regulated utility' like ratemaking process, environmental burdens, and forward-looking consolidated financial metrics that range in the 'Ba' to 'A' category per Moody's U.S. Public Power Electric Utilities with Generation Ownership Exposure methodology. Hydrology and wholesale market prices are the greatest volatility drivers of BPA's financial performance. Additionally, BPA's accelerated repayment of federal appropriations debt and declining availability under the US Treasury line are factors that diminish the US government explicit support features over time.

Rating Outlook

The stable outlook on the lease revenue bonds reflect BPA's stable outlook. BPA's stable outlook considers BPA's FY 2016-17 final rates and BPA's plan to maintain sufficient availability under the US Treasury line through FY 2020.

Factors that Could Lead to an Upgrade

Ratings on the lease revenue bonds could be upgraded if BPA is upgraded.

BPA's rating could improve over the long term if BPA is able to substantially mitigate hydrology and wholesale price risk and if BPA implements policies to ensure strong internal reserves for risk resulting in at least 250 days cash on hand on a sustainable basis.

Factors that Could Lead to a Downgrade

Ratings on the lease revenue bonds could be downgraded if BPA is downgraded or if the underlying lease agreement is violated.

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US Government support diminishes, if BPA further weakens the benefits of federal debt

subordination or if the US Government's rating is lowered below Aaa.

#### Legal Security

Bond security is the pledge of the lease agreement between the Port of Morrow and BPA to lease certain transmission lines and related equipment. BPA's obligation to make lease payments is absolute and unconditional and is payable without any set-off or counterclaim, regardless of whether or not the project is operating or operable. The lease is co-terminus with the bonds and the lease payments have been structured to match debt service payments including the lease bond's bullet maturities ranging from 2020 through 2021. The bond trustee has the right to receive all lease payments and BPA will directly make the lease payments to the bond trustee. There is no debt service reserve.

#### Use of Proceeds

Bond issuance proceeds will be used acquire recently completed electric transmission improvements and pay transaction costs. BPA will then lease these assets.

#### Obligor Profile

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for federally owned generation and electric transmission assets in the Pacific Northwest spanning all or parts of eight states. The federal hydro projects serve numerous purposes, including irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, and power generation. The Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. Many of the statutory authorities of BPA are vested with the Secretary of Energy, who appoints and acts through the BPA administrator.

#### Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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