Energy Northwest, Washington and Bonneville Power Administration, Oregon

Electric Revenue Bonds

New Issue Report

Ratings

New Issues

Approximately $530,965,000 Columbia Generating Station Elec. Rev. Rfdg. Bonds, Series 2014-A	AA
Approximately $90,675,000 Columbia Generating Station Elec. Rev. Rfdg. Bonds, Series 2014-B (Taxable)	AA
Approximately $26,010,000 Project 3 Elec. Rev. Rfdg. Bonds, Series 2014-A	AA

Outstanding Debt

$1,048,005,000 Project 1 Bonds	AA
$3,163,200,000 Columbia Generating Station Bonds	AA
$1,229,245,000 Project 3 Bonds	AA
Bonneville Power Administration, Implied Revenue Obligations	AA

Related Ratings

$84,740,000 Port of Morrow Transmission Facilities Revenue Bonds, Series 2012	AA
$87,995,000 Lewis County PUD No. 1 Cowlitz Falls Hydroelectric Rev. Rfdg. Bonds, Series 2013	AA

Rating Outlook

Stable

Key Utility Statistics

Fiscal Year Ended 6/30/13

System Type	Wholesale
NERC Region	WECC
No. of Customers	135
Annual Revenues ($ Mil.)	$3,346.3
Fuel Dependency (%)	Hydro
ENW Bond Debt Service Coverage (x)	1.88
Total Debt Service Coverage (x)	1.05
Days Operating Cash	96
Equity/Capitalization (%)	14

Related Research

U.S. Public Power Peer Study Addendum — February 2014 (February 2014)

2014 Outlook: U.S. Public Power and Electric Cooperative Sector (Calm Under Pressure) (December 2013)

U.S. Public Power Peer Study — June 2013 (June 2013)

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New Issue Details

Sale Information: The bonds are scheduled to price the week of April 7, 2014, via negotiation.

Security: Energy Northwest (ENW) bonds are secured by payments from the Bonneville Power Administration (Bonneville). Bonneville's payment to ENW is made as an operating expense, prior to the U.S. Treasury ($3.9 billion) and federal appropriations ($4.3 billion).

Purpose: Approximately $200 million of the proceeds will fund new improvements to the Columbia Generating Station (CGS). Remaining proceeds will refund outstanding bonds for savings, extend the 2014 maturity, and pay cost of issuance.

Final Maturity: Series 2014A: July 1, 2040; Series 2014B: July 1, 2015.

Key Rating Drivers

Bonneville's Obligation Secures Bonds: The ratings on the ENW, Cowlitz Falls, and Port of Morrow bonds reflect the credit quality of Bonneville, and its absolute and unconditional obligation to make payments for debt service.

Competitive Regional Supplier: Bonneville has a competitive resource portfolio of 8,506 average annual megawatts (aMW) that provides wholesale electricity (primarily low-cost hydropower) to a population of more than 12 million in the Pacific Northwest region.

Low-Risk Power Sales Contracts: Bonneville sells power through long-term, take-or-pay contracts through 2028 that recover cost of service from 125 preference customers. New contracts went into effect in fiscal 2012 that limit Bonneville's financial exposure to member load increases and lower than expected output from the federal system.

Two-Year Rate Setting: Bonneville sets rates based on a two-year rate cycle, with mid-period cost adjustments allowed. Increases in Bonneville's tier 1 power rate (9%) and transmission rate (11%) in fiscal 2014 are expected to stabilize financial performance.

Wholesale Market Risk Reduced: Bonneville's financial performance relies on net secondary revenues from wholesale market power sales. Lower than expected net secondary revenues have pressured financial margins and reserves. Positively, Bonneville has lowered its reliance on forecast secondary revenues in its past two rate cases.

Declining Power Reserves: Declining reserves remain a concern, but are mitigated by interim rate setting available to Bonneville and a $750 million federal line of credit with Treasury.

Limited Capital Access: Bonneville's access to capital is limited, as it cannot issue debt and has a $7.7 billion ceiling on borrowing from Treasury. However, Fitch Ratings expects access to alternative forms of financing will be sufficient to meet Bonneville's capital needs.

Rating Sensitivities

Further Revenue and Reserve Declines: A continuing trend of lower than expected net secondary revenues and declining cash reserves could pressure the ratings.

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	3/28/14
AA	Affirmed	Stable	5/31/13
AA	Affirmed	Stable	8/01/12
AA	Affirmed	Stable	6/1/11
AA	Affirmed	Stable	12/9/10
AA	Affirmed	Positive	2/19/10
AA	Upgraded	Positive	3/4/09
AA–	Affirmed	Positive	3/9/08
AA–	Affirmed	Stable	3/12/04
AA–	Downgraded	Stable	3/12/03
AA	Affirmed	Stable	3/19/02
AA	Affirmed	—	11/16/01
AA	Upgraded	—	5/3/00
AA–	Affirmed	—	12/15/97
AA–	Affirmed	—	10/7/96
AA–	Downgraded	—	8/17/95
AA	Affirmed	—	1/24/94
AA	Affirmed	—	9/7/93
AA	Affirmed	—	9/8/92

Implied Revenue Bond — Bonneville Power Administration Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	3/28/14
AA	Affirmed	Stable	5/31/13
AA	Affirmed	Stable	8/01/12
AA	Affirmed	Stable	6/1/11
AA	Affirmed	Stable	2/28/11
AA	Assigned	Stable	12/9/10

Related Criteria

U.S. Public Power Rating Criteria (March 2014)

Credit Profile

Energy Northwest

ENW, formerly known as the Washington Public Power Supply System, was created in 1957. ENW has 27 members, consisting of 22 public utility districts and the cities of Centralia, Port Angeles, Richland, Seattle, and Tacoma, WA. ENW owns and operates CGS, the Packwood Lake Hydroelectric Project, and the Nine Canyon Wind Project. ENW also has financial responsibility for Projects 1 and 3, its terminated nuclear projects.

Bonneville Power Administration

Bonneville is the key power agency in the Pacific Northwest, and its role in the region is critical. Bonneville's estimated service area includes 12 million people, and extends across Idaho, Oregon, and Washington, as well as portions of Montana, Wyoming, Nevada, Utah, and California. Bonneville's system accounts for approximately 33% of the electricity sold in the region and 75% of the transmission infrastructure.

Bonneville is the largest of four federal power marketing administrations (PMAs) within the Department of Energy (DOE). The PMAs were formed by the federal government (Bonneville in 1937) to sell power from federal flood control and irrigation projects to repay the investment and supply power to rural areas of the country. Bonneville sells energy produced from 31 hydroelectric plants owned and operated by the U.S. Army Corps of Engineers or the U.S. Bureau of Reclamation. Bonneville is required by statute to sell the power at cost-based rates, with a preference given to public utility districts and cooperatives.

Bonneville also markets energy from nonfederal projects, the largest of which is CGS. CGS is a 1,157-MW nuclear plant (approximately 10% of Bonneville's total power supply). Bonneville is obligated to pay debt service on the ENW bonds related to CGS and Projects 1 and 3, two non-operating nuclear projects.

Bonneville Rating Not Based on Federal Support

Fitch's ratings on Bonneville's implied revenue obligations and the related ENW, Port Morrow, and Lewis County Public Utility District (PUD) No. 1 bonds reflect the credit quality of the administration as a self-supporting entity. While Bonneville is an agency within the DOE, Fitch believes there is an indication of direct federal support for Bonneville's nonfederal obligations in the event of fiscal distress. Bonneville's subordinate obligations to the U.S. Treasury offer an advantageous structural feature, in that Bonneville may defer payment to the Treasury, if necessary, which provide flexibility to the payment obligations ahead of Treasury. A linkage with the federal government exists in the form of governance by the DOE (including the DOE's current assumption of all hiring decisions at Bonneville), appointment of the administrator, congressional approval on Bonneville's budget, and the banking and lending relationship with Treasury, with all revenues and expenditures required to move through the Bonneville Fund held at Treasury.

Governance and Management Strategy

Coordination Between ENW and Bonneville Viewed as Low Risk

ENW is governed by a 27-member board of directors, with one board member representing each of ENW's member systems. The board works cooperatively with Bonneville regarding the management of the debt obligations related to CGS and Projects 1 and 3, as well as the operations of CGS. Bonneville's authority is vested in the secretary of energy, who appoints the Bonneville administrator or CEO.

Business Strategy Focus on Capital Investment, Financial Reserves, and Transmission

The focus of Bonneville's business strategy includes capital reinvestment in the system, financial stability, environmental issues, energy efficiency, and transmission grid capacity and flexibility. Bonneville's relationship with its customers appears strong at this time, and the parties are working together to address capital funding issues and reduce Bonneville's reliance on net secondary revenues in its rates.

Fitch Concerned about DOE Investigation, but Not a Key Risk to Credit Quality

In a report released in October 2013, the DOE detailed hiring practices that had occurred systematically at Bonneville, which led to the exclusion of qualified candidates from job consideration. In a number of cases, the excluded candidates were veterans, whose preference status under federal hiring practices was not honored. The DOE placed two top officials at Bonneville on administrative leave in the summer of 2013 as a result of the findings and revoked Bonneville's hiring authority, which has not yet been restored. All hiring must be coordinated through the DOE. As required by the DOE, Bonneville is in the process of reconstructing 1,250 hiring decisions to see if any qualified candidates were inappropriately excluded. Bonneville estimated it had completed around 50% of the expected reviews in March 2014.

Fitch believes the DOE investigation, turnover at the senior management level, and the workload to review past hiring decisions represents a distraction to Bonneville management and staff. However, the financial costs related to the investigation should be manageable and easily absorbed within annual operations. The appointment of permanent senior management in February 2014 and progress towards restoration of Bonneville's independent hiring authority are viewed as positive developments.

FERC Rate Oversight Designed to Protect Treasury Repayment

Bonneville's power and transmission rates are regulated by the Federal Energy Regulatory Commission (FERC), which reviews the administration's rates to ensure full cost recovery and revenue sufficient to repay its Treasury obligations. FERC reviews Bonneville's transmission rates to further ensure they are nondiscriminatory, as well as just and reasonable.

Assets and Operations

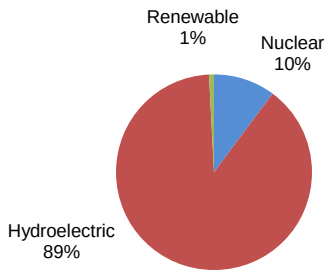
Power Supply Is Carbon Free

Bonneville markets energy from a predominantly hydroelectric generation portfolio, which poses unique risks and challenges from a forecasting and balancing standpoint, but offers tremendous advantages as a low-cost, carbon-free resource. To manage hydroelectric variability, Bonneville sells excess generation during the spring run-off months, and purchases energy in other months to shape energy supply to its preference customer load profiles, many of whom are winter peaking utilities.

The federal hydroelectric projects were constructed between 1941 (Grand Coulee) and 1975 (Lower Granite, Libby, and Lost Creek), and are operated by the U.S. Army Corps of Engineers or the Bureau of Reclamation. Bonneville has begun the overhaul of all six generating units of Grand Coulee (4,994 MW), which is expected to be a 10-year project. Grand Coulee accounts for 23% of the total generating capacity in a median water flow scenario. The single site risk of this facility is balanced against the importance of the project's broad federal mission aside from power supply, which is primarily flood control and irrigation. The Grand Coulee dam is the largest concrete structure built in the U.S. The lake behind the dam, Lake Roosevelt, is the main storage reservoir for the Columbia River system.

CGS provides a baseload resource to the portfolio that is also carbon free. Although neither the federal government nor the states in Bonneville's service area have imposed a carbon tax or greenhouse gas limitation on generators, pressure for stricter guidelines is growing. Bonneville's portfolio is relatively stable and not expected to change or grow other than efficiency investments. However, aging facilities at the hydroelectric plants demand capital investment.

Bonneville Fuel Type by Capacity



Source: Bonneville's Median Energy Scenario.

Financial Planning Based on Average Water Conditions

The table below shows the wide range of outputs (in aMW) for Bonneville's resources, and how highly dependent the federal system is on water flows throughout the region. For operational planning purposes, Bonneville uses an assumption of water conditions below the 30-year

Bonneville's Energy Estimates — 2014

	Capacity (Peak MW)	High Water Flow Energy (aMW)	Median Water Flow Energy (aMW)	Low Water Flow Energy (aMW)
Bureau of Reclamation Hydro Projects	5,345	2,909	2,655	2,177
U.S. Corps of Engineers Hydro Projects	12,572	7,554	6,306	4,693
Nonfederally Owned Projects (Including CGS)	1,191	1,172	1,156	1,152
Federal Contract Purchases	893	501	494	484
Total Federal System Resources	20,001	12,136	10,611	8,506

aMW – Average MW. CGS – Columbia Generating Station.
Source: Bonneville Power Administration.

average, referred to as critical water. Bonneville estimates the total federal system will produce 8,506 aMW of firm energy under critical water conditions in fiscal 2014. This represents the amount of firm energy (Tier 1) Bonneville plans to have available to divide among its preference customers, based on their preference allocations. Bonneville estimates Tier 1 demand from its preference customers in fiscal 2014 will be 7,115 aMW. Bonneville sold 6,876 aMW of Tier 1 power in fiscal 2013.

For ratemaking and financial planning purposes, Bonneville considers the additional energy production available for sale under average water conditions. The federal system is expected to produce 10,611 aMW for 2014, based on average water conditions. The production in excess of the critical water estimate is assumed to be sold at forward market prices, with revenues used to supplement sales to preference customers. These wholesale sales, netted against market purchases done by Bonneville during certain months of the year to shape the output of the federal system, compose net secondary system revenues.

Fitch views the use of average water conditions for ratemaking and financial planning as an optimistic assumption given the below average water conditions in nine of the past 10 years.

Columbia Generating Station Shows Strong Operations

Bonneville receives 10% of its power from ENW's CGS, pursuant to net billing agreements. CGS is a 1,157-MW nuclear plant that commenced commercial operation in December 1984. The plant has operated well, with a cumulative capacity factor of 86.1% for the past 10 years. The CGS is licensed by the Nuclear Regulatory Commission to operate through 2043. The cost of energy in fiscal 2014 is estimated at $38.49 per MWh, lower than the fiscal 2013 cost of $45.10 per MWh due to a biennial refueling outage occurring in fiscal 2013.

Environmental Costs Are Complex but Stable

Bonneville is required to protect, mitigate, and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. Environmental costs are the subject of ongoing litigation and have generally increased over time. These costs are included in Bonneville's power rates for its preference customers.

Furthermore, the power sales contracts have a cost recovery adjustment mechanism (CRAC) that allows for additional rate recovery for fish-related cost increases in between rate cases. This is viewed positively given recent litigation and uncertainty with the Columbia River System Biological Opinion. Some resolution of the issues appears to be addressed by the January 2014 opinion, with costs in the range of what had been anticipated in Bonneville's last rate case. Direct costs are around $460 million annually, and Bonneville estimates other operational costs (power replacement costs and foregone power sales revenues) at around $120 million annually.

Transmission

Bonneville's transmission operations have grown from providing around 16% of revenues 10 years ago to 25% of overall system revenues in fiscal 2013. The federal transmission system, owned and operated by Bonneville, is composed of approximately 15,000 circuit miles of high-voltage transmission lines and approximately 300 substations located in six states. Bonneville's transmission business functions with aspects of a regional transmission organization, and charges users of the system in two methods: point to point service or system integration.

Transmission customers are a wider group than Bonneville's 125 preference customers and include investor-owned utilities (IOUs) and power generators in the region.

Bonneville's transmission business has been focused on infrastructure additions needed to interconnect new wind generation projects to the broader transmission grid during the past 10 years. Bonneville estimates these costs account for over half of the 11% transmission rate increase put into effect Oct. 1, 2013. This was the first transmission rate increase in eight years. Bonneville continues to face challenges associated with integration of a substantial amount of wind generation into its transmission system given its variable output and the potential impact to reliability.

Oversupply Management Protocol

Bonneville continues to address challenges related to significant excess energy and the curtailment of nonfederal generation in the region. The administration filed an oversupply management protocol rate proposal with FERC in 2014 that will compensate wind generators for eligible costs they incur as a result of being displaced and bill those costs through to all generators in Bonneville's balancing authority, including the federal system. Although this issue is likely to continue to generate discussion and evolve over time, it is not currently considered a key credit factor. Eligible costs in 2012 (based on the proposed 2014 proposal) would have totaled only $2.7 million, and no displacements occurred in fiscal 2013. Bonneville estimates the potential eligible costs at approximately $10 million annually under the proposed policy, although management notes that depending on water conditions and additional wind generation construction, costs could be higher.

Customer Profile and Service Area

Bonneville's transmission service area encompasses six states. The power service area is similar. The Northwest Power Act (1980) requires the administration to meet certain firm loads of various preference customers and regional IOUs in the Pacific Northwest from the federal system. Service to these customers is billed at Bonneville's lowest cost power rate — the preference rate. Bonneville also has contracts to sell firm power to certain federal agencies, although it is not required by law to serve these agencies. Bonneville does not have an obligation to meet all firm loads within the region, nor does it have an obligation to provide service to direct-service industrial customers.

Power Customers

(Power Revenue in Fiscal Year 2013)

	% of Sales
Snohomish County PUD No. 1	9
Cowlitz County PUD No. 1	6
City of Seattle, City Light Department	6
Pacific Northwest Generating Cooperative	5
Tacoma Power	5
ALCOA, Inc.	4
Clark Public Utilities	4
Powerex Corp.	3
Eugene Water & Electric Board	3
Morgan Stanley Capital Group, Inc.	3

PUD – Public utility district.
Source: Bonneville Power Administration.

Transmission Customers

(Transmission Revenue in Fiscal Year 2013)

	% of Sales
Puget Sound Energy Inc.	11
PacifiCorp	11
Portland General Electric Company	8
Powerex Corp.	7
Snohomish County PUD No. 1	5
Iberdrola Renewables Inc.	5
City of Seattle, City Light Department	4
Hermiston Power LLC	3
Clark Public Utilities	2
Cowlitz County PUD No. 1	2

PUD – Public utility district.
Source: Bonneville Power Administration.

20-Year Power Supply Contracts Limit Risks to Bonneville

Bonneville and its customers began operating under new 20-year contracts with each preference customer at the beginning of fiscal 2012, which was on Oct. 1, 2011. The new contracts limit Bonneville's role as a regional provider to the allocation of the existing federal system at cost-based rates. Bonneville is therefore no longer obligated to acquire additional generation and energy to meet growth beyond what can be met through its existing resources, unless specifically requested to do so by individual preference customers at full cost.

The limit of operational risk to Bonneville is also significant. Any decline in output or capacity in the federal system, including reductions resulting from operating constraints imposed by the Endangered Species Act, will result in a corresponding reduction in power available for sale at what are known as Tier 1 rates. Although the slice contracts do this directly with 26.7% of the Tier 1 load, the remaining customers bear this risk, and the costs will be allocated to them in the next rate case or through a midyear cost adjustment, if needed. These clarifications of Bonneville's role in meeting regional growth and the removal of operating risk are credit positives.

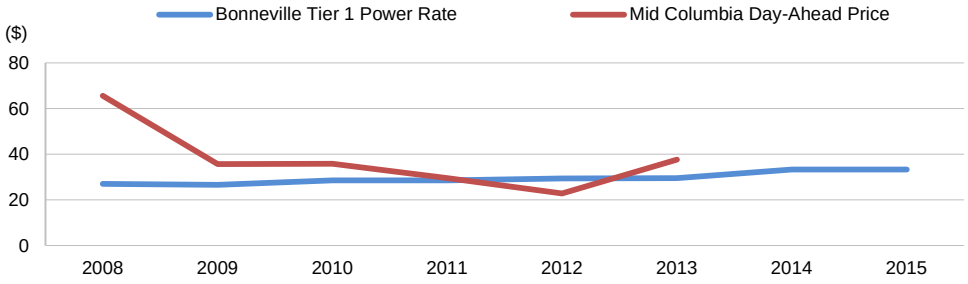
Residential Exchange Program Settlement

Residential exchange, a rate benefit provided by Bonneville to residential and small farm customers of IOUs, has been the subject of extensive debate between Bonneville and its preference customers, and the subject of litigation since initially established in 2000. A settlement reached by Bonneville and most of its preference customers in 2012 was upheld in October 2013 by the Ninth Circuit Court of Appeals. Financial payments will proceed as expected. Fitch views the payments as an exchange between customer classes. Some reserves held by Bonneville during the litigation will be disbursed, but these reserves were viewed as encumbered reserves.

Cost and Rate Structure

Bonneville establishes its power and transmission rates for two-year periods. Bonneville most recently implemented a power rate increase of 9% and a transmission rate increase of 11% on Oct. 1, 2013. Bonneville increased its tier 1 power rates to $33.32 per MWh, or $31.50 per MWh including the look-back credit and residential exchange credit. The primary driver of the power rate increase was lower assumed net secondary revenues. Bonneville's low-cost hydroelectric generation is still generally below the cost of other market alternatives.

Power Rates



Source: Bonneville Power Administration, SNL.

Bonneville's two-year rate-setting policy does not prevent the administration from adjusting rates in the interim period, as automatic adjustments may be triggered under the CRAC based

on a variety of factors, including forecast year-end net revenues or to recover any borrowings from Treasury for liquidity purposes.

Bonneville uses a tiered rate methodology. This methodology allocates the output and cost recovery of the federal system resources within Tier 1 rates. These rates recover costs relating only to operation of the federal system, including fish and wildlife costs and certain net billed projects, such as CGS, and Nuclear Projects 1 and 3. Tier 1 rates absorb the positive or negative effect from Bonneville's secondary sales of energy derived from the federal system. The allocation of the federal resources to preference customers at Tier 1 rates was based on each customer's net requirements as a percentage of all preference customers calculated at the end of fiscal 2010 (Sept. 30, 2010).

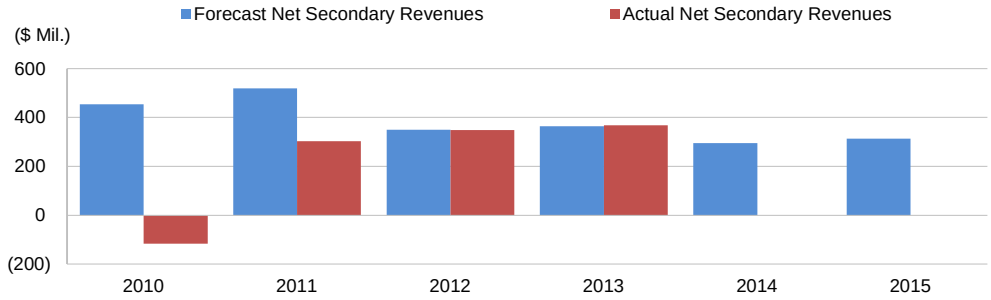
Customers can engage Bonneville to provide Tier 2 power, to the extent their load grows beyond their Tier 1 allocation. In these cases, Bonneville will procure the Tier 2 power on behalf of the customer and supply it at cost. However, customers have opted to acquire much of their own load growth power needs, as procuring through Bonneville has offered little cost advantage versus other providers or the market. Bonneville currently provides less than 100 MW of Tier 2 power.

Financial Performance and Legal Provisions

Bonneville has faced financial pressure for the past five years resulting from low power market prices and related revenues for its secondary sales. Bonneville's net secondary sales result from the portion of the federal system that is excess to the load demand allocated under preference contracts. Cost-based rates assume net secondary revenues based on average water conditions and forecast market prices. Bonneville's budget therefore relies on net secondary revenues in addition to its power sales revenues and transmission revenues. Secondary revenues have been lower than projected due to below average water conditions in all but three of the last 10 years.

Net secondary revenues in fiscal 2010 fell to a low of negative $116 million in fiscal 2010, but increased to $345 million in fiscal 2013. Rate setting in fiscals 2012 and 2013 incorporated lower net secondary revenue reliance than had been used historically, which bolstered performance. As shown in the chart below, net secondary revenues were very close to levels assumed in the rate case for fiscals 2012 and 2013.

Net Secondary Revenues



Note: Net Secondary equals surplus minus power purchases.
Source: Bonneville Power Administration.

Rate setting in fiscal 2014 assumed a further reduction in net secondary sales to $295 million in fiscal 2014 and $314 million in fiscal 2015. Initial indications as of the end of the first quarter in fiscal 2014 were below this conservative forecast at a projected $164 million. Since this

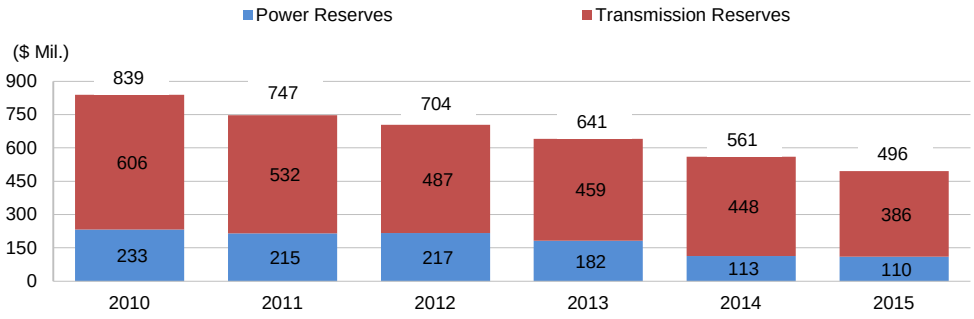
estimate, streamflows have increased from 80% to 101% of average levels, according the National Weather Service, and Bonneville anticipates its estimate of secondary revenues at the end of the second quarter of fiscal 2014 will be closer to the level forecast in the rate case.

Debt service coverage of the ENW debt was 1.88x in fiscal 2013. Coverage of the ENW debt and Bonneville's federal obligations was modest at 1.05x, but improved from below 1.0x in fiscal 2012, 2010, and 2009. In each of those years, Bonneville used reserves to compensate for the lower than budgeted revenues.

Financial Flexibility Provided by Line of Credit and Rate Adjusters

Bonneville's reserves have declined in recent years. However, Bonneville's risk profile has also lessened over this time period as a result of the new power contracts, flexibility to adjust rates through cost adjusters, and reduced reliance on net secondary revenues in its rate setting. Bonneville's reserves for risk, or unencumbered reserves, declined to $641 million in fiscal 2013, with $182 million in the power business line and the remaining reserves allocated to transmission. This represents 96 days of operations, but when the $750 million line of credit with the U.S. Treasury is included, Bonneville's liquidity metric is more robust at 209 days.

Bonneville Reserves for Risk[a]



[a]Projected for July 2013 rate case forecast.
Source: Bonneville Power Administration.

Bonneville's forecast in its July 2013 rate case estimate was that reserves for risk could decline further to $496 million total by the end of fiscal 2015. However, there is a high degree of variability in this estimate and actual reserve performance will depend on hydrological flows in the region, timing of those flows, and market prices. Fitch believes the reduced reliance on net secondary revenues in rate setting should provide greater stability to Bonneville's reserves.

Large Future Capital Investments Needed

As with many utilities across the county, Bonneville faces the issue of aging infrastructure and delayed capital reinvestment. Bonneville has a statutory debt limit with the U.S. Federal Treasury of $7.7 billion, complicating capital funding decisions. Bonneville currently has $3.9 billion outstanding in Treasury bonds. Of the $7.7 billion debt limit, $6.45 billion is available for transmission projects, with the remaining $1.25 million available for conservation and energy efficiency spending, and renewable resources, including capital investment at the Federal System hydroelectric facilities. Bonneville and its customers face the challenge of funding upgrades and improvements to the valuable fleet of aging hydroelectric facilities, owned by the Bureau of Reclamation and U.S. Army Corps of Engineers.

Bonneville Power Administration Capital Spending

($ Mil.)	2009	2010	2011	2012	2013	Projected 2014	2015	2016	2017	2018	Five-Year Total
Capital Spending											
Transmission	377	470	522	557	506	531	627	530	468	399	2,555
Hydro Generation	140	148	200	214	206	190	200	224	230	257	1,101
Energy Efficiency	17	58	162	80	78	75	92	95	98	101	461
Fish and Wildlife	29	41	91	58	52	50	52	55	31	19	207
Facilities, IT, Security	31	45	36	45	40	119	89	100	67	61	436
Total Annual Spending	**594**	**762**	**1,011**	**954**	**882**	**965**	**1,060**	**1,004**	**894**	**837**	**4,760**
Capital Funding											
U.S. Treasury Borrowings	409	604	798	664	632	TBD	TBD	TBD	TBD	TBD	—
Lease Purchases	120	54	77	235	207	TBD	TBD	TBD	TBD	TBD	—
Transmission Funded by Customers	49	105	107	39	9	12	15	15	15	15	72
Reserves	15	0	30	15	15	15	15	15	15	15	75
Power Prepayment	—	—	—	—	20	150	170	—	—	—	320
Unidentified	—	—	—	—	—	788	860	974	864	807	4,293
Total Annual Spending	**593**	**763**	**1,012**	**953**	**883**	**965**	**1,060**	**1,004**	**894**	**837**	**4,760**

Source: Bonneville Power Administration.

Bonneville has spent between $880 million and $1.0 billion annually on capital during the past three years. Spending in fiscal 2014 is estimated at close to $1 billion, with similar amounts annually in the future, with an expected investment of $4.7 billion over the next five years. This is in addition to around $1 billion ENW is expected to spend on CGS over the next 10 years.

Around half of Bonneville's planned spending will be targeted to transmission investments. Much of the transmission-related capital spending is anticipated to be funded through lease financings, similar to the Port of Morrow bonds issued in 2012. Additional financings by this issuer, and other conduit issuers, are expected. Bonneville also plans to spend down $15 million annually from its transmission reserves through fiscal 2021.

Similarly, Bonneville is exploring third-party financing options for energy efficiency and conservation programs. Funding for hydroelectric project improvements is expected to be funded through the $340 million received in a customer power prepayment program executed in fiscal 2013. Bonneville has also asked the ENW board of directors to consider extending the CGS debt, which would provide some additional cash flow for capital.

Legal Provisions

The ENW bonds are issued on a project-specific basis (CGS or the non-operating nuclear projects, Project 1 and Project 3), and enjoy Bonneville's pledge of payment if customer revenues under the net billing agreements are insufficient. Bonneville's debt service payments on the $5.5 billion in ENW debt are senior to its payment obligations to the U.S. Treasury.

All of Bonneville's revenues are required to be deposited in the Bonneville Fund, which is a separate fund within the U.S. Treasury. From this fund, Bonneville must first pay all costs necessary to operate and maintain the federal system, including payments on net billed bonds (i.e. ENW CGS and Projects 1 and 3, Lewis County PUD No. 1) and lease payments to Port of Morrow. Bonneville may only make required payments to the U.S. Treasury after these payments are made.

Bonneville's coverage of debt service on ENW bonds is in effect typically augmented to more than 2.0x, considering the subordination of the U.S. Treasury debt service payments.

Bonneville has not deferred its payment to the U.S. Treasury since 1983, but retains the right to do so.

Direct-Pay Agreements Versus Net Billing Agreements

Bonneville has net billing agreements with ENW that have historically required Bonneville's customers to pay their initial bills in each fiscal year directly to ENW, until ENW's expenses related to the nonfederal projects (both operating and debt related) had been satisfied. Bonneville offered customers a net billing credit, and once the obligation to ENW was satisfied, customers began remitting their bills directly to Bonneville. This practice had been viewed as a credit strength in that the funds were sent directly to ENW and were typically collected in the first few months of the fiscal years.

Bonneville and ENW entered into direct-pay agreements in 2006, which allow Bonneville to pay ENW directly for the nonfederal projects (CGS, Projects 1 and 3) instead of Bonneville customers sending payments directly to ENW in the first few months of the fiscal year, as previously occurred under the net billing agreements. The impact on ENW is collecting debt service related to the bonds over the full fiscal year instead of concentrated during the first few months of the year. The impact on Bonneville is more level revenue collections over the full fiscal year. Fitch does not view this as a material change to ENW bondholders.

Financial Summary — Bonneville Power Administration, Oregon

($000, Fiscal Years Ended Sept. 30)	2013	2012	2011	2010	2009
Cash Flow (x)					
Nonfederal Project DSC (After Payment O&M)	1.9	2.2	2.3	1.9	2.2
Total DSC of Nonfederal and Treasury Obligations	1.1	1.0	1.0	0.8	0.9
Coverage of Full Obligations	1.4	1.4	1.4	1.3	1.3
Liquidity					
Days Cash On Balance Sheet	256	224	219	212	264
Days Cash On Unencumbered Reserves	96	110	118	131	173
Days Liquidity On Unencumbered Reserves	209	228	237	248	295
Leverage (%)					
Debt/Funds Available for Debt Service	10.9	10.2	9.6	11.6	12.1
Equity/Capitalization	13.9	15.2	15.6	15.6	16.3
Equity/Adjusted Capitalization	127.3	127.9	126.8	128.1	134.1
Other (%)					
General Fund Transfer/Total Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Variable Rate Exposure/Capitalization	0	0	0	0	0
Income Statement					
Total Operating Revenues	3,346,281	3,317,850	3,284,774	3,055,131	2,870,284
Total Operating Expenses[a]	2,427,862	2,329,118	2,305,761	2,339,010	2,251,538
Operating Income					
Adjustment to Operating Income for Debt-Service Coverage	458,654	432,684	431,064	423,417	432,929
Funds Available for Debt Service	1,377,073	1,421,416	1,410,077	1,124,738	1,086,352
Total Annual Debt Service	1,314,190	1,484,606	1,387,404	1,391,444	1,259,880
Net Revenues	(105,000)	87,000	82,000	(128,581)	(101,050)
Adjusted Net Revenues[b]	56,000	128,000	N.A.	N.A.	N.A.
Balance Sheet					
Unrestricted Funds on Balance Sheet	1,399,042	1,191,354	1,145,473	1,144,454	1,371,573
Unencumbered Reserves	641,000	704,000	747,000	839,000	1,068,000
Total Debt	**15,013,366**	**14,534,245**	**13,565,534**	**13,094,599**	**13,091,563**
Equity and/or Retained Earnings	2,432,217	2,595,940	2,510,373	2,428,691	2,556,272

[a]Operating expenses shown here exclude the payment of nonfederal projects, but include cash payments to federal agencies as included in the audited financial statements. Bonneville excludes these payments in its calculation of ENW debt service coverage since they are paid with the other federal obligations. [b]Adjusted Net Revenues is a calculation done by Bonneville to reverse the impacts of debt optimization completed in early years that moved nonfederal debt repayment into the years fiscal 2012 and beyond to optimize federal borrowing authority. O&M – Operations and maintenance. N.A. – Not applicable.
Source: Bonneville Power Administration.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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