

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Series 2015 BPA backed lease revenue bonds issued by the Port of Morrow (OR); Rating outlook is stable.

Global Credit Research - 06 Aug 2015

Approximately \$100 million of debt securities affected

BONNEVILLE POWER ADMINISTRATION, OR
Electric Generation
OR

Moody's Rating

ISSUE	RATING
Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 3) Series 2015 (Federally Taxable)	Aa1
Sale Amount	\$100,000,000
Expected Sale Date	08/20/15
Rating Description	Revenue: Government Enterprise

Moody's Outlook STA

NEW YORK, August 06, 2015 --Moody's Investors Service has assigned a Aa1 rating to Morrow (Port of) OR's (Port of Morrow, not rated) \$100 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 3) Series 2015 (Federally Taxable). The lease bonds are non-recourse to the Port of Morrow. The rating outlook is stable

SUMMARY RATING RATIONALE

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.

BPA's Aa1 issuer rating reflects its fundamental credit strengths including US 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 a \$7.7 billion borrowing authority (\$3.46 billion available as of September 30, 2014) with the US Treasury 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.

BPA's rating also considers long-term credit challenges such as hydrology and wholesale market price risk, environmental burdens, high debt load, lengthy ratemaking process, declining availability under the US Treasury line, 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 rating methodology. Hydrology and wholesale market prices are the greatest volatility drivers of BPA's financial performance.

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, BPA's near-term ability to withstand difficult market price and hydrology conditions, and BPA's plan to maintain sufficient availability under the US Treasury line through FY 2017.

WHAT COULD MAKE THE RATING GO UP

-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.

WHAT COULD MAKE THE RATING GO DOWN

- 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, federal constraints are placed on BPA or if the US Government's rating is lowered below Aa1.

STRENGTHS

- U.S. government support through US Treasury borrowing line and federal debt service deferral ability
- Regional importance as indirect power provider for 12 million people
- Access to 22 GW of low cost, federally owned hydro system
- Dominant electric transmission provider in the Pacific Northwest
- Highly competitive rates
- Long-term power sales contracts with creditworthy public power entities

CHALLENGES

- Long and complex ratemaking process
- Significant exposure to hydrology risk and wholesale power markets
- 'Ba' to 'A' category forecasted financial metrics
- Large debt funded capital program
- Declining availability under US Treasury Line
- Significant fish and wildlife environmental costs

RECENT DEVELOPMENTS

In July 2015, BPA finalized its rate proposal for the two year, 2016-2017 rate period. The average wholesale power rate increase is 7.1% while the average transmission rate increase is 4.4%, which are modestly below the February 2015 proposed power rate increase of 7.2% and the January 2015 proposed transmission rate increase of 5.6%, respectively. These rate increases have been submitted to the Federal Energy Regulatory Commission (FERC) for their approval. The new rates will take effect on October 1, 2015.

In May 2015, Washington State declared a statewide drought emergency due to substantially below average regional snowpack. BPA has hydro dams in Washington State in addition to the broader Pacific Northwest region. Above average temperatures resulted in above average water flow early in the 2015 water year and National Oceanic and Atmospheric Administration (NOAA) forecasts 67% of average water flow for the April through September period (at Dalles Dam). However, for the full 2015 water year (October through September), NOAA forecasts that regional hydrology will be around 86% of water, which is not as severe as the April through September period. Typically below average hydrology lowers BPA's wholesale revenues and weakens financial performance all else equal. However, BPA's latest estimate for fiscal year-end 2015 reserves for risk is \$876 million, which is an improvement over \$784 million at fiscal year-end 2014. The improvement primarily reflects BPA's favorable court ruling tied to the 2001 California energy crisis, which resulted in a reallocation of \$74 million of funds previously considered as reserves not available for risk.

DETAILED RATING RATIONALE

For detailed rating rationale, please see Moody's report dated April 9, 2015 on BPA.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

Moody's evaluates BPA's issuer rating under the US Public Power Electric Utilities with Generation Ownership Exposure methodology, and, as depicted below, the scorecard indicated rating is Aa2, which is lower than its Aa1 assigned rating. The implicit and explicit US Government support features represent the key drivers between BPA's Aa1 assigned rating and the Aa2 scorecard indicated rating under the US Public Power with Generation Ownership methodology.

The grid is a reference tool that can be used to approximate credit profiles in the US public power industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see U.S. Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS

1. Cost Recovery Framework Within Service Territory (25% weight): (Aa)
2. Willingness to Recover Costs With Sound Financial Metrics (25% weight): (A)
3. Management of Generation Risk (10% weight): (Aa)
4. Competitiveness (10% weight): (Aa)
5. Financial Strength:
 - Sub factor a) Adjusted Days Liquidity on Hand (10% weight): (129 3-year average) (A)
 - Sub factor b) Debt Ratio (10% weight): (96% 3-year average) (Baa)
 - Sub factor c) Adjusted Debt Service Coverage (10% weight): (1.13x 3-year average) (Baa)

Grid Indicated Rating: A1

Notching:

Lack of debt service reserve: -0.5

Other: +3 (regional importance, US Treasury borrowing line, payment deferral ability)

Scorecard Indicated Rating: Aa2

KEY STATISTICS

-BPA's Federally and Non-Federally Owned Generation, 2016 Operating Year: 10,123 average megawatts (median water conditions)

-Non-Federal Debt Service Coverage Ratio, 2014 (reported): 4.4 times

-Non-Federal Debt Service Coverage Ratio, 2014 (Moody's): 3.7 times

-Total Debt Service Coverage Ratio, 2014 (Moody's): 1.2 times

-Days cash on hand, 2014 (Moody's): 136

-Available BPA Reserves, 2014 (encumbered and unencumbered): \$ 1.22 billion

-Total Reserves Available for Risk, 2014 (unencumbered): \$784 million

-BPA Payment to U.S. Treasury, 2014: \$991 million

-Authorized Line of Credit With U.S. Treasury, 2014: \$7.7 billion (\$3.46 billion available)

-BPA Average Tier 1 Power Rate, 2015: \$31.50/MWh

-Non-federal debt, FY 2014: \$7.24 billion

-Federal debt, FY 2014: \$8.33 billion

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.

BPA operations are divided between Power Services and Transmission Services though all cash flows ultimately flow into one account (BPA Fund) at the US Treasury. The Power Services business is responsible for the revenue and costs of BPA's generation resources and represents the largest segment at around 75% of BPA's revenues in a typical year. Transmission Services is responsible for the revenue and costs of BPA's electric transmission system and generates the remainder of BPA's revenues. BPA's power rates are reviewed and approved by the FERC according to the Northwest Power Act.

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 2024 through 2027. 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 proceeds will be used to purchase Northwest Infrastructure Financing Corporation IV's transmission assets and pay for transaction costs.

ISSUER CONTACT

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PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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