

MOODY'S

INVESTORS SERVICE

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

Global Credit Research - 24 Nov 2014

Approximately \$200 million of debt affected

BONNEVILLE POWER ADMINISTRATION, OR
Electric Generation
OR

Moody's Rating

ISSUE		RATING
Transmission Facilities Revenue Bonds (Bonneville Corporation Project No.2), Series 2014 (Federally Taxable)		Aa1
Sale Amount	\$200,000,000	
Expected Sale Date	12/01/14	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, November 24, 2014 --Moody's Investors Service has assigned a Aa1 rating to Morrow (Port of) OR's (Port of Morrow, not rated) \$200 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 2) Series 2014 (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 comprising of US Government (Aaa stable) support features, strong underlying hydro and transmission assets, competitive power costs, and 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, historical trend of declining liquidity, and low consolidated financial metrics that range in the 'Baa' to 'A' category depending on the metric. Hydrology and wholesale market prices are the greatest volatility drivers of BPA's financial performance with an almost \$1 billion swing in net revenues between the best and most challenging years since 2000.

For FY 2014, BPA's financial performance substantially benefited from above average regional hydrology and higher wholesale power prices that contributed to stronger liquidity and debt service coverage ratios (DSCR) relative to rate case expectations. BPA's liquidity increased for the first time since 2008 to 136 days cash on hand in FY 2014 compared to 117 days cash on hand in FY 2013 and total DSCR improved to 1.2 times compared to 1.06 times in FY 2013. We view the stronger than expected performance as credit positive albeit not sustainable since hydrology and wholesale power prices are volatile.

Separately, the debt extension at Energy Northwest's nuclear projects was the most significant contributor to non-federal DSCR increasing to 3.7 times for FY 2014 compared to 1.7 times in FY 2013. The higher DSCR now reflects mostly interest expense coverage and we continue to view the debt extension as a credit negative since it extends non-federal debt while accelerating the repayment of de-facto junior debt owed to the US Treasury. However, BPA's rating remains unaffected at this time given the uncertainties of BPA's long-term capital structure.

Outlook

The stable outlook on the Port of Morrow transmission bonds reflect BPA's stable outlook. BPA's stable outlook considers BPA's FY 2014-15 rates, BPA's near-term ability to withstand difficult market price and hydrology conditions, and BPA's plan to maintain sizeable availability under the US Treasury line.

WHAT COULD MAKE THE RATING GO UP

Ratings on the Port of Morrow transmission 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 Port of Morrow transmission 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.

DETAILED CREDIT DISCUSSION

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 Federal Energy Regulatory Commission (FERC) according to the Northwest Power Act.

USE OF PROCEEDS: Bond proceeds will be used to repay bank loans used to fund construction of electric transmission facilities and related equipment and pay for transaction costs.

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.

INTEREST RATE DERIVATIVES: BPA's non-bond financed lease debt has approximately \$1.2 billion of notional interest rate swaps. We understand there are no collateral posting requirements under any conditions.

For description of the BPA's key rating drivers, please see Moody's new issue report dated March 27, 2014.

KEY STATISTICS

Aggregate BPA Power Capacity, 2015 Operating Year (median water conditions): 9,949 average megawatts

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: \$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 Rate, 2015: \$31.50/MWh

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

Federal debt, FY 2014: \$8.33 billion

OTHER CONSIDERATIONS

Moody's evaluates BPA under the US Public Power Electric Utilities with Generation Ownership Exposure methodology, and, as depicted below, the grid indicated rating is Aa2, which is lower than its Aa1 assigned rating. The implicit and explicit US Government support features represents the key drivers between BPA's Aa1 rating and the Aa2 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 for public power with generation ownership in most cases. However, the grid is a summary that does not include every rating consideration. Please see US Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

Methodology Factors

1. Cost Recovery Framework (25% weight): (Aa)

2. Willingness to Recover Costs and Maintain Sound Financial Metrics (25% weight): (A)

3. Management of Generation Risk (10% weight): (Aa)

4. Rate 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: A2

Notching:

Lack of debt service reserve: -0.5

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

Scorecard Indicated Rating: Aa2

RATING 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's.com for a copy of this

methodology.

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