MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Energy Northwest's (WA) Columbia Generating Station and Project 3 revenue bonds. Rating outlook is stable.

Global Credit Research - 27 Mar 2014

Approximately $6.9 billion of debt securities affected

New York, March 27, 2014 --

Moody's Rating

Issue: Columbia Generating Station Electric Revenue Bonds, Series 2014 - A; Rating; Aa1; Sale Amount: $530,965,000; Expected Sale Date: 05-14-2014; Rating Description: Revenue: Government Enterprise

Issue: Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2014 - B (Taxable); Rating; Aa1; Sale Amount: $90,675,000; Expected Sale Date: 05-14-2014; Rating Description: Revenue: Government Enterprise

Issue: Project 3 Electric Revenue Refunding Bonds, Series 2014-A; Rating: Aa1; Sale Amount: $26,010,000; Expected Sale Date: 05-14-2014; Rating Description: Revenue: Government Enterprise

Opinion

Moody's has assigned a Aa1 rating to Energy Northwest's (ENW) $531 million of Columbia Generating Station (CGS) Electric Revenue Bonds, Series 2014-A; $26 million of Project 3 Electric Revenue Refunding Bonds, Series 2014-A; and $91 million of Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2014-B (Taxable). These bonds are supported by net billing agreement with Bonneville Power Administration (BPA, Aa1/stable) and thus are rated the same as BPA's other supported obligations. Moody's also affirmed BPA's Aa1 issuer rating and BPA supported ratings comprising of Project No. 1, CGS, Project No. 3, Conservation and Renewable Energy System Conservation Project, Cowlitz Falls Hydroelectric Project, Northwest Infrastructure Financing Corp Transmission Facilities Lease, Port of Morrow Transmission Facilities Revenue Bonds, and Conservation System Project Revenue Bonds. The rating outlook is stable.

Summary Rating Rationale

The Aa1 rating on ENW's CGS, Project 1, and Project 3 and the other BPA supported revenue bonds reflect BPA's contractual obligation to pay including debt service under each respective agreement (e.g. net billing agreement), BPA's long history of meetings its contractual obligations, and BPA's Aa1 issuer rating. For ENW's Project 1 & 3, we also view positively their rapid debt amortization over the next three to four years given their status as partially completed nuclear projects.

BPA's Aa1 issuer ratings benefit from 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 with the US Treasury and the legal ability to defer its annual US Treasury repayment if necessary. BPA's importance to the US Northwest region and its role as a US government agency represent drivers of implicit support. The implicit and explicit support features represents the key factor for the one notch difference between BPA's Aa1 rating and the Aa2 grid indicated rating under the US Public Power with Generation Ownership methodology.

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 liquidity, and low financial metrics. 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. The current below average hydrology conditions further emphasizes BPA's inherent revenue volatility due to its over 80% hydro generation concentration and the importance of reserves to blunt the impact of such downside events. BPA's declining internal liquidity remains an ongoing challenge.

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. The stable outlook on ENW's CGS, Project 1, Project 3 and other BPA supported obligations reflect BPA's stable outlook.

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 ratings are lowered below Aa1. Additionally, ratings on BPA supported revenue bonds could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

BPA's rating could improve over the long term if BPA is able to fully mitigate hydrology and wholesale price risk and if BPA implements policies to ensure strong internal risk reserves resulting in at least 250 days cash on hand on a sustained basis. Ratings on BPA supported revenue bonds could be upgraded if BPA is upgraded.

The principal methodologies used in this rating were U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. The additional methodology for the Northwest Project 1, Project 3, and Columbia Generating ratings was the US Municipal Joint Action Agencies published in October 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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