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ISSUER COMMENT

US Government's stable rating outlook viewed as positive for Bonneville Power Administration (BPA) but does not change BPA's rating

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Summary

On July 18, 2013, Moody's affirmed the US Government's Aaa rating and changed the outlook to stable from negative. We view the rating action as positive for Bonneville Power Administration (BPA) since BPA benefits from US Government support features including a $7.7 billion borrowing line ($3.42 billion outstanding at FY2012) with the US Treasury and the ability to defer payments to the US Treasury. In FY 2012, BPA made debt service payment exceeding $800 million to the US Treasury.

Separately, news organizations reported on July 16, 2013 that BPA's administrator and chief operating officer were replaced due to possible violation of hiring practices. We view this event as negative since this could divert management's attention from addressing BPA's long term challenges such as the development and implementation of an alternative capital sourcing plan.

However, neither event will result in an immediate rating action or a change in outlook since BPA's key credit drivers remain materially unchanged. BPA's fundamental strengths including the US Government support features described above, strong underlying hydro and transmission assets, highly competitive power costs, and 17-year power supply contracts, BPA's rating also considers long term credit challenges such as adverse hydrology and wholesale market price risk, environmental burdens, high debt load, lengthy ratemaking process, declining internal 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 (2006) and most challenging years (2001). The declining liquidity and volatility of BPA's revenues were major drivers of BPA's rating downgrade in August 2011 (see Moody's report 'Bonneville Power Administration: On the Hunt for New Capital Sources' for a detailed analysis of BPA).

The BPA's stable outlook reflects BPA's proposed FY 2014-15 rates, BPA's ability to withstand difficult market price and hydrology conditions, and Moody's view that BPA will institute an alternative capital sourcing plan to maintain sizeable availability under the US Treasury line.

BPA's rating could improve if BPA fully mitigates 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.

BPA's rating could be negatively pressured if BPA's consolidated debt service coverage ratio drops below 1.0x on a sustained basis, if internal days cash on hand drops to the lower end of the 'Baa' category under the Public Power with Generation Ownership methodology or if BPA does not maintain substantial availability under the US Treasury line. Furthermore, BPA's rating could be downgraded if FY 2014-2015 final rates are substantially lower than proposed, if US Government support diminishes, federal constraints are placed on BPA or if the US Government's credit quality deteriorates. BPA's rating could also be downgraded if the BPA is unable to properly access its funds or its US Treasury line of credit.

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