MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms Bonneville Power Administration's (OR) Aa1 issuer and outstanding ratings. Rating outlook is stable.

Global Credit Research - 18 Mar 2013

Approximately $6.3 billion of debt affected

BONNEVILLE POWER ADMINISTRATION, OR
Electric Generation
OR

Opinion

NEW YORK, March 18, 2013 --

Moody's has affirmed Bonneville Power Administration's (BPA) Aa1 issuer rating and BPA related ratings comprising of Project No. 1, Columbia Generating Station, Project No. 3, Conservation and Renewable Energy System Conservation Project, Cowlitz Falls Hydroelectric Project, Northwest Infrastructure Financing Corp Transmission Facilities Lease, Conservation System Project Revenue Bonds and Port of Morrow Transmission Facilities revenue bonds. The rating outlook is stable.

SUMMARY RATING RATIONALE

BPA's Aa1rating benefits from fundamental credit strengths comprising of US Government support features, strong underlying hydro and transmission assets, highly competitive power costs, and 17-year power supply contracts. 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 components of implicit support. The implicit and explicit support features are key drivers of the Aa1.

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 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.

A recent development is BPA's FY 2014-2015 rate proposal that incorporates 9.6% average power rate increase and a 13% average transmission increase which we view as important to maintaining BPA's current credit quality. Based on BPA's proposed rates, we expected total debt service coverage to be around 1.1x while non-federal debt service is expected to be around 1.9x. We calculate that reserves for risk are likely to decline by 22% by FY 2015 compared to FY 2012. The continuing decline in internal reserves was incorporated in BPA's August 2011 rating downgrade though this trend continuing past 2015 remains a concern. BPA's final rate decisions will be published in July 2013 and we incorporate the assumption the rates will be substantially approved as proposed.

A near term low level event risk for BPA remains the US Government's May 18, 2013 debt ceiling extension expiration. If the debt ceiling issue is not addressed, the US Treasury may eventually encounter liquidity issues. Under this situation, BPA might not be able to fully access its funds at the US Treasury, ultimately resulting in BPA not being able to pay all of its bills. We understand BPA has considered contingency plans to address such as event risk. Moody's currently incorporates the assumption that the debt ceiling will be addressed in a manner that does not affect BPA's ability to access its funds.

Over the longer term, access to capital to fund BPA's large capital expenditure program is a growing concern. BPA estimates it could fully utilize the $7.7 billion US Treasury borrowing line by 2017 based on its long-term capital plans. That said, Moody's recognizes that BPA is considering combinations of alternative sources of capital such as leases, power pre-pays, conservation, utilization of internal reserves, and revenue funding that should maintain at least $2.2 billion of US treasury line availability through at least 2017 under most scenarios.

OUTLOOK

The 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. The stable outlook also reflects Moody's assumption that the US Government's upcoming debt ceiling issue will be addressed in a manner that does not affect BPA's ability to access its funds.

WHAT COULD MAKE THE RATING GO DOWN

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. Additionally, BPA related ratings could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

WHAT COULD MAKE THE RATING GO UP

In light of the negative rating outlook that we have on the US Government, very limited prospects exist for BPA's rating to be upgraded in the short-term. BPA's rating could improve if BPA is able to fully mitigate hydrology and wholesale price risk, if BPA implements policies to ensure strong internal risk reserves resulting in at least 250 days cash on hand on a sustained basis, and if the US Government's rating stabilizes at Aaa. BPA related ratings could be upgraded if BPA is upgraded.

Background on BPA:

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 (see below). The Army Corps of Engineers and the Bureau of Reclamation 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 76% of BPA's revenues in FY 2012. 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.

KEY STATISTICS

Aggregate BPA Power Capacity, 2013 Operating Year at median water conditions: 10,585 average megawatts

Non-Federal Debt Service Coverage Ratio, 2012 (reported): 2.4 times

Non-Federal Debt Service Coverage Ratio, 2012 (Moody's): 2.1 times

Total Debt Service Coverage Ratio, 2012 (Moody's): 1.1 times

Available BPA Reserves, 2012 (encumbered and unencumbered): $ 1.02 billion

Total Reserves Available for Risk, 2012: $704 million

BPA Payment to US Treasury, 2012: $886 million

Authorized Line of Credit With US Treasury, 2012: $7.7 billion ($3.4 billion drawn)

BPA Average Tier 1 Rate, 2013: $29/MWh

Columbia Generating Station Nameplate Capacity: 1,130 MW

Non-federal debt, FY 2012: $6.9 billion

Federal debt, FY 2012: $7.7 billion

Public Power Rating 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): (143) (A)

Sub factor b) Debt Ratio (10% weight): (47% [non-federal only]-Aa) / (100% [total debt]-Ba)

Sub factor c) Adjusted Debt Service Coverage (10% weight): (2.0x [non-federal only]-Aa) / (1.0x [total debt]-Ba)

Grid Indicated Rating: [Aa3] [non-federal only] / [A2] [total debt]

Notching:

Lack of debt service reserve: -0.5

Other (regional importance, borrowing line, deferral ability[total debt only]): +2 [non-federal only] / +3 [total debt]

Scorecard Indicated Rating: [Aa2] [non-federal only] / [Aa2] [total debt]

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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