MOODY'S
INVESTORS SERVICE

# New Issue: Moody's assigns Aa1 rating to BPA backed Cowlitz Falls Hydro debt; outlook is stable

Global Credit Research - 30 May 2013

**Approximately $83 million of debt affected**

BONNEVILLE POWER ADMINISTRATION, OR
Electric Distribution and Generation
OR

**Moody's Rating**

| ISSUE | RATING |
|---|---|
| Cowlitz Falls Hydroelectric Project Revenue Refunding Bonds, Series 2013 | Aa1 |

| | |
|---|---|
| **Sale Amount** | $82,860,000 |
| **Expected Sale Date** | 06/13/13 |
| **Rating Description** | Revenue: Government Enterprise |

**Moody's Outlook**

**Opinion**

NEW YORK, May 30, 2013 --Moody's has assigned a Aa1 rating to Lewis County Public Utility District 1's (Lewis County PUD) $83 million of Cowlitz Falls Hydroelectric Project (Cowlitz Falls Hydro) Revenue Refunding Bonds, Series 2013. The rating outlook is stable. Cowlitz Falls Hydro's debts are non-recourse to Lewis County PUD.

SUMMARY RATING RATIONALE

Cowlitz Falls Hydro's Aa1 rating reflects Bonneville Power Administration's (BPA) unconditional payment obligations under a power purchase agreement (PPA) to pay project costs including debt service and a separate payment agreement (Payment Agreement) with the bond trustee to pay debt service on Cowlitz Falls Hydro's bonds.

BPA's Aa1issuer rating 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 rating.

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.

Detailed Credit Analysis

Cowlitz Falls Hydro

The project is a 70 MW run of the river hydro project located in Lewis County, Washington and owned by Lewis County PUD. Cowlitz Falls Hydro reached commercial operations in 1994 and its Federal Energy Regulatory and Commission (FERC) license expires on June 1, 2036. Average annual energy production is estimated at around 260,000 MWh based on a 57 year history of stream flows.

Legal Security:

The Cowlitz Falls Hydro bonds are secured by revenues derived under take-or-pay PPA with BPA which expires on June 30, 2032 and the contract matures after final bond maturity on April 1, 2032. Under the PPA BPA purchases all project capability from Lewis County PUD and is obligated to pay all project power costs, including debt service, whether or not the project is completed, terminated, operating or operable. In addition, BPA has entered into the Payment Agreement with the bond trustee to directly pay debt service on the Cowtliz Falls Project bonds irrespective of whether the project is completed, terminated, operating or operable. There is no debt service reserve. The bonds are non-recourse to Lewis County PUD.

Use of Proceeds:

The proceeds of the offering will be used to refund existing debt and pay transaction costs.

For detailed credit analysis on BPA, please see the credit focus report titled 'Bonneville Power Administration: On the Hunt for New Capital Sources' published in March 2013.

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 debt ceiling issue will be addressed in a manner that does not affect BPA's ability to access its funds.

What could move the rating -- 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 move the rating -- 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.

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 - BPA

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]

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.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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