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

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cowlitz Falls Hydorlectric Project Revenue Refunding Bonds, Series 2013</td>
<td>Aa1</td>
</tr>
</tbody>
</table>

| 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 Aa1 issuer 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 Cowlitz 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

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

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.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Clifford J Kim
Lead Analyst
Public Finance Group
and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.