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Energy Northwest, Washington Bonneville Power Administration, Oregon; Wholesale Electric

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<i>Long Term Rating</i>	AA-/Stable	New
US\$317.96 mil columbia generating station elec rev rfdg bnds (Bonneville Pwr Admin) ser 2015-A due 07/01/2040		
<i>Long Term Rating</i>	AA-/Stable	New
US\$101.6 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2015-A due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New
US\$74.275 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2015-A due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New
US\$39.27 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2015-B due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New
US\$25.125 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2015-B due 07/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to six series of proposed Energy Northwest (ENW), Wash., bonds. Bonneville Power Administration (BPA), Ore., will pay the bonds' debt service as operating expenses of its electric system. The bonds include:

- \$101.6 million project 1 electric revenue refunding bonds, series 2015-A;
- \$ 318.0 million Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2015-A;
- \$74.3 million project 3 electric revenue refunding bonds, series 2015-A;
- \$25.1 million project 1 electric revenue refunding bonds, series 2015-B (taxable);
- \$329. 5 million CGS electric revenue and refunding bonds, series 2015-B (taxable); and
- \$39,.3 million project 3 electric revenue refunding bonds, series 2015-B (taxable) due July 2028.

At the same time, Standard & Poor's affirmed its ratings on existing parity ENW debt and the several nonfederal obligations that BPA pays as an operating expense of its electric system. The outlook is stable. Standard & Poor's also affirmed its 'aa-' stand-alone credit profile (SACP) on BPA.

ENW and BPA will use the project 1 and 3 bonds' proceeds to refund about \$50 million of ENW's existing project 1 and 3 debt for savings and defer the principal amortization of about \$230 million of these projects' debt. The deferrals will free up funds to retire portions of higher interest federal appropriation more rapidly and preserve Treasury borrowing capacity.

The CGS bonds include about \$215 million for the plant's capital projects, \$323 million for refundings for savings ,and

\$111 million for debt extensions. Compared with the project 1 and 3 refunding bonds, the savings the CGS bonds provide will be passed along to customers rather than be applied to restoring Treasury borrowing capacity or reducing appropriations debt .

As of fiscal year-end 2014 (Sept. 30), Bonneville had \$15.6 billion of debt obligations, consisting of \$4.1 billion of federal appropriations, \$4.2 billion of bonds issued to the U.S. Treasury, and \$7.2 billion of nonfederal debt that BPA supports. Its financial statements include in its nonfederal debt \$1.5 billion of lease obligations and \$319 million of customer power prepayments. It pays nonfederal debt from net revenues before it services federal Treasury debt and appropriations.

Accelerating portions of high interest rate federal appropriations debt should reduce interest expense. Also, once retired, funds that would have been applied to its principal will then be available to accelerate portions of BPA's Treasury debt, which is critical to funding its capital program. The utility operates under a congressionally imposed \$7.7 billion ceiling on its Treasury borrowings. Although as of fiscal year-end 2014, \$4.2 billion of Treasury bonds were outstanding, Bonneville reports that capital spending needs could exhaust the remaining Treasury borrowing capacity by as soon as 2017. BPA expects that paying down Treasury debt with the savings from deferring ENW debt will alleviate the constraints and add years to its Treasury borrowing capacity. BPA labels its use of ENW debt extensions to reduce appropriations and Treasury debt Regional Cooperation Debt Refinancings. It began this program in 2014 and expects additional transactions to further these plans.

Although the series project 1 and 3 bonds are subordinate ENW obligations, the utility covenanted to close the prior liens. The \$41 million of project 1 senior debt and the \$136.9 million of project 3 senior debt represent about 2.5% of the \$7.2 billion of nonfederal debt that BPA supports. These incomplete nuclear units have nearly \$2.1 billion of debt and CGS has \$3.3 billion. ENW has retired its prior-lien CGS debt. The station is ENW's only completed and operating nuclear unit.

The 'AA-' ratings on ENW's debt and the other nonfederal debt that BPA supports reflect Bonneville's contractual obligations to support the debt and the application of our government-related entities (GRE) criteria. We believe that Bonneville's stand-alone credit profile is 'aa-' and there is a "moderately high" likelihood that the U.S. government would provide extraordinary support to it in financial distress. We base the latter view on our opinion of the "strong" link between the BPA and the federal government, as well as the "important" federal role the agency plays in the Pacific Northwest. However, after downgrading the U.S. to 'AA+' from 'AAA' in August 2011, we no longer view the U.S. government's sovereign credit profile as lifting the ratings of the nonfederal obligations that BPA supports above the utility's stand-alone credit profile.

The GRE rating reflects our view of:

- Bonneville's status as a federal agency;
- The ongoing financial support the federal government provides to the agency through long-term loans and credit lines;
- Legislation that allows BPA to defer repayments of federal obligations if in financial distress; and
- The utility's important contributions to the Pacific Northwest's economy, where it indirectly serves a population of about 12 million in eight states, provides low-cost power that is critical to the region's economic health, and

operates key transmission resources.

Bonneville's stand-alone credit profile reflects our assessment of the following factors:

- The ongoing support the federal government provides to BPA through loans and credit lines;
- Congress's 2009 increase in the agency's federal borrowing authority to \$7.70 billion, up \$3.25 billion (or 73%). However, Bonneville projects that by 2017, it could consume the headroom between its \$4.2 billion of U.S. Treasury borrowings and \$7.7 billion as it proceeds with capital spending;
- The legislative mechanism that allows BPA to pay nonfederal debt as an operating expense ahead of federal debt service and to defer repaying federal obligations if it lacks the financial resources to meet all of its operating and debt obligations;
- A track record of at least 1.8x nonfederal accrual debt service coverage in fiscal years 2010-2014. However, tempering this is accrual coverage of total obligations of 1.0x in 2011 and 2013, and 0.9x in 2012, but 1.2x in 2014;
- Robust liquidity, which tempers the sometimes substantial impacts of variable hydrology conditions on financial performance and mitigates credit risks inherent in biennial rate cases;
- The utility's exceptionally broad and diverse service territory;
- The strong, efficient, and economical operations of the federal hydroelectric Columbia River Power System, which foster strong demand for their output and ENW nuclear production;
- Customers who have contracts with BPA that extend from 2008-2028, which demonstrate the customer base's commitment to the agency's system. However, the contracts do not establish rates and the utility continues to rely on biennial rate proceedings; and
- Tiered rates that underlie the customer contracts and help shield BPA from market volatility by assigning to customers the costs of energy needs exceeding individual allotments of capacity from the federal hydroelectric projects and CGS.

Standard & Poor's also incorporates the following exposures in its assessment:

- Financial performance hinges on hydrology conditions that can impair surplus power sales revenues and require replacement power purchases that add to expenses. However, we believe robust liquidity provided a cushion that tempered the financial implications of weak hydrology.
- Highly politicized and protracted biennial rate proceedings can delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility. Nevertheless, municipal and cooperative customers' 2014-2015 electric rates are 9% higher than previous rates and transmission rates are 11% higher.
- Bonneville and ENW project substantial capital needs could add to both organizations' debt and consume BPA's Treasury borrowing authority. The utility reports it is exploring off-balance-sheet financing arrangements, including leases and energy prepayments by its customers to address expectations that it could soon exhaust its federal borrowing capacity.
- BPA's capital spending program is important to maintaining the integrity of its generation fleet and managing forced outage incidents.
- The \$7.7 billion federal debt limit includes \$750 million carved out as a credit line, which leaves slightly less than \$3 billion of capacity after existing borrowings.
- The success of the Regional Cooperation Debt Refinancings and the ability to extend the tenor of BPA's capacity to borrow from Treasury hinges on the ability to restructure nonfederal debt, the willingness of ENW and others to serve as conduit issuers, and acceleration of portions of Bonneville's federal appropriations and Treasury debt.

Outlook

The stable outlook reflects our view that Bonneville's SACP can withstand a downgrade on the U.S. Also, we believe the 9% power rate and 11% transmission rate increases in BPA's 2014-2015 rate proceeding covering the two fiscal years that began in October 2013 could help support debt service coverage and liquidity. If, during our two-year outlook horizon, Bonneville's robust liquidity cushion erodes meaningfully, we could lower the SACP. Also, if BPA adds significant off-balance-sheet leverage obligations because of its statutory debt ceiling, negative implications for the SACP and 'AA-' rating could follow. At the same time, ENW's willingness to serve as a conduit to capital markets remains important to managing Treasury borrowing limits. We do not expect to raise the ratings in the next two years.

Bonneville's Nonfederal Debt Obligations

BPA's nonfederal rated obligations include:

- \$5.4 billion of ENW revenue and refunding bonds, \$3.0 billion of which relates to the operating CGS and the balance to the incomplete units 1 and 3;
- \$85.1 million of Public Utility District No. 1 of Lewis County, Wash., Cowlitz Falls Project bonds;
- \$119.6 million of Northwest Infrastructure Financing Corp. (Schultz-Wautoma project) bonds;
- \$17.0 million of Northern Wasco Public Utility District, Ore. (McNary Dam Project) bonds; and
- \$2.0 million of Tacoma, Wash., conservation system project bonds.

Through Northwest Infrastructure Financing, which developed transmission assets financed through lease arrangements, BPA also has borrowed \$615.2 million on credit lines as of Sept. 30, 2014, down from \$1.1 billion as of June 30.

Operations

Bonneville markets electricity generated at 31 federal hydroelectric projects, ENW's nonfederal nuclear CGS, and several nonfederal small power plants. It primarily markets these resources' output to the customers of 125 public power and electric cooperative utilities (84% of sales), federal agencies, direct service industries, and the residential and farm customers of six investor-owned utilities. BPA also operates an extensive transmission system that facilitates power marketing activities. Its transmission system represents about 75% of the Pacific Northwest's transmission capacity.

In fiscal 2014, federal hydroelectric projects supplied about 67% of the electricity that Bonneville sold, down from about 87% in 2013 due to hydrology conditions. ENW's CGS supplied about 8.5% and the balance came from other nonfederal projects.

ENW debt-financed two partially completed nuclear reactors and one completed reactor, CGS, a 1,150 megawatt reactor. Dividing nonfederal debt service by the kilowatt-hours (kWh) from nuclear capacity and other nonfederal assets produces an average nonfederal assets debt service per kWh that is about 10x more expensive than the federal hydroelectric assets' debt service per kWh. The nuclear assets' debt is the leading component of nonfederal

obligations.

Capital Spending Forecast

Bonneville projects nearly \$5 billion of 2015-2019 capital projects. In descending order, the capital program's largest segments are transmission projects, hydroelectric asset upkeep, energy efficiency projects, and fish and wildlife protection. We view investments in the hydroelectric assets as critical to cash flow, particularly because the generating assets have exhibited an above-average forced outage factor relative to the balance of the power industry. Power sales accounted for 71% of 2014's operating revenues, compared with transmission's 25%.

ENW projects about \$598 million of 2015-2019 capital projects.

Related Criteria And Research

Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- USPF Criteria: Wholesale Utilities, May 24, 2005
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of April 9, 2015)

Energy Northwest, Washington

Bonneville Pwr Admin, Oregon

Energy Northwest elec rev rfdg bnds

Long Term Rating AA-/Stable Affirmed

Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)

Long Term Rating AA-/Stable Affirmed

Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Proj 1 taxable)

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Proj 1)

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subseries F-1 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due 07/01/20

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)

Long Term Rating AA-/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) rev bnds (Nuclear Proj #2) ser 1975A dtd 03/01/75 due 07/01/2012 (cusip# 939828LL1)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Energy Northwest (Bonneville Pwr Admin) rfdg rev bnds (Bonneville Pwr Admin-Nuclear Proj #1 & #3) ser 1993C dtd 09/01/1993 due 07/01/1996 1999 2002-20

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Ratings Detail (As Of April 9, 2015) (cont.)

Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating sta elec (BHAC) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Bonneville Pwr Admin elec		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Colu)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) rfdg rev bnds ser 93C dtd 9/23/93 due 7/1/2013 2014 2015 2017(CUSIP #939830RW7 RY3 RX5 RZ0)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist, Oregon		
Bonneville Pwr Admin, Oregon		
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) rev rfdg bnds (McNary Dam Fishway Hydroelec Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANs		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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