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

Primary Credit Analyst:
David N Bodek, New York (1) 212-438-7969; david.bodek@standardandpoors.com

Secondary Contact:
Jeffrey M Panger, New York (1) 212-438-2076; jeff.panger@standardandpoors.com

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

Credit Profile		
US$199.985 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028		
Long Term Rating	AA-/Stable	New
US$72.35 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2014-C due 07/01/2028		
Long Term Rating	AA-/Stable	New
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to two 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:

- $199.985 million Project 1 electric revenue refunding bonds, series 2014-C; and
- $72.35 million Project 3 electric revenue refunding bonds, series 2014-C.

At the same time, Standard & Poor's affirmed its ratings on parity ENW debt outstanding 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 on BPA.

ENW and BPA will use the project 1 bonds' proceeds to repay $235.4 borrowed under a line of credit that paid the project's July 1, 2014, debt maturities. The project 3 bonds' proceeds will repay $85.2 million borrowed under a line of credit that paid the project's July 1 debt maturities. ENW is deferring the 2014-C project 1 and 3 bonds' principal amortization until July 2025. It will make four principal payments between July 2025 and the bonds' July 2028 final maturity. The final maturity corresponds to the projected asset lives of the units 1 and 3 nuclear plants, had they been completed. These units were not completed and did not enter service. Although principal amortization is postponed, the bonds will pay interest semiannually, beginning Jan. 1, 2015.

By deferring to 2025 the amortization of the debt that refinances ENW's July 1 maturities, BPA will free up funds. It plans to apply those funds to retiring portions of higher interest federal appropriation debt on an accelerated basis. As of June 30, 2014, $4.3 billion of federal appropriation debt was outstanding.

Accelerating portions of the 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 BPA's capital program. The utility operates under a congressionally imposed $7.7 billion ceiling on its Treasury borrowings. Although as of June 30, 2014, $4.3 billion of Treasury bonds were outstanding, the utility's 2013 annual report states that capital spending needs could exhaust the remaining Treasury borrowing capacity by as soon as 2017. Paying down Treasury debt with the savings from deferring ENW debt and accelerating portions of the Treasury debt could alleviate the constraints. BPA also forecasts that retiring high interest rate appropriations debt will yield debt service savings that can temper the rate adjustments it will need in its 2016-2017 rate case. BPA views this ENW refinancing as the first part of its plans for a number of similar transactions that can preserve Treasury borrowing capacity and produce customer savings. It labels these plans Regional Cooperation Debt Refinancings.

Bonneville projects that annual federal debt service will exceed nonfederal debt service for at least 10 years following this and other refinancings. This is significant to the credit quality of the ENW debt because BPA pays nonfederal debt service, including its ENW obligations, ahead of deferrable federal debt service. The smaller the ratio of nonfederal debt service to federal debt service means that a Bonneville budget designed to cover all debt service obligations will provide a more robust financial cushion for the nonfederal debt service obligations.

Although the series 2014-C 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. The incomplete nuclear units have $2.1 billion of debt. ENW has retired its prior-lien Columbia Generating Station (CGS) electric revenue bonds and $3.3 billion of subordinate-lien debt is outstanding. CGS is ENW's only completed and operating nuclear unit.

As of June 30, 2014, Bonneville had $15.8 billion of debt obligations, consisting of $4.3 billion of federal appropriations, $4.3 billion of bonds issued to the U.S. Treasury, and $7.1 billion of nonfederal debt that Bonneville supports. BPA's financial statements include in its nonfederal debt $1.3 billion of lease obligations and $323 million of customer power prepayments. It pays nonfederal debt from net revenues before it services federal Treasury debt and appropriations.

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, in its 2013 annual report Bonneville projected that by 2017, it could consume the headroom between its $3.9 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 debt service coverage in fiscal years 2009-2013 (year ended Sept. 30), tempered by accrual coverage of total obligations of 1.0x in 2011 and 2013, 0.8x in 2009 and 2010, and 0.9x in 2012;
- 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. Due to poor hydrology, accrual-basis debt service coverage of all debt was only 0.8x in 2009 and 2010, and 0.9x in 2012. BPA's cash from operations was $268 million in 2009 and $370 million in 2010, representing the lowest points in cash from operations since 2007's $872 million. 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 to serve as a conduit issuer, and acceleration of portions of Bonneville's federal appropriations and Treasury debt.

Outlook

The stable outlook reflects our view that Bonneville's stand-alone credit profile can withstand a further 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 stand-alone credit profile. Also, if BPA adds significant off-balance-sheet leverage obligations because of its statutory debt ceiling, it could lead to negative implications for the stand-alone credit profile and the 'AA-' rating. 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:

- $4.8 billion of ENW revenue and refunding bonds, $3.0 billion relates to the operating CGS and the balance for the incomplete units 1 and 3;
- $87.9 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;
- $3.0 million of conservation and renewable energy system bonds; and
- $3.5 million of Tacoma, Wash., conservation system project bonds.

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

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 2013, federal hydroelectric projects supplied about 87% of the electricity that Bonneville sold. ENW's CGS supplied about 10% and the balance came from other non-federal 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 non-federal 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 non-federal obligations.

Capital Spending Forecast

Bonneville projects nearly $5 billion of 2014-2018 capital projects. In descending order, transmission projects, hydroelectric asset upkeep, energy efficiency projects, and fish and wildlife protection represent the largest segments of the capital program. 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 75% of 2013's operating revenues, compared to transmission's 25%.

ENW projects about $612 million of 2014-2018 capital projects.

Related Criteria And Research

Related Criteria

- USPF Criteria: Electric Utility Ratings, June 15, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of July 30, 2014)		
Conservation and Renewable Energy Sys, Washington		
Bonneville Pwr Admin, Oregon		
Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj		
Long Term Rating	AA-/Stable	Affirmed
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 (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) ser 2014A due 07/01/2015		
Long Term Rating	AA-/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
Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds		

Ratings Detail (As Of July 30, 2014) (cont.)		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin) ser 2014A due 07/01/2040		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)		
Long Term Rating	AA-/Stable	Affirmed
Bonneville Pwr Admin elec		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Colu)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Energy Northwest rfdg elec rev bnds (Bonneville Pwr Admin)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (XL Capital Assurance Inc.)		
Unenhanced Rating	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)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Washington Pub Pwr Supp Sys (Nuclear Proj #3) (Bonneville Pwr Admin)		
Unenhanced Rating	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)		
Long Term Rating	AA-/Stable	Affirmed
Northern Wasco Cnty Peoples Util Dist (Bonneville Pwr Admin) (McNary Dam Fishway Hydroelec Proj)		
Long Term Rating	AA-/Stable	Affirmed
Northwest Infrastructure Financing Corp., New York		
Bonneville Pwr Admin, Oregon		
Northwest Infrastructure Financing Corp. (Bonneville Pwr Admin) TRANs		
Long Term Rating	AA-/Stable	Affirmed
Tacoma, Washington		
Bonneville Pwr Admin, Oregon		
Tacoma (Bonneville Pwr Admin) (Pub Util Lt Div Conserv Sys Proj)		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.