UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

Fiscal Year 2016-2017 Proposed	**)**	**BPA Docket No. BP-16**
Power and Transmission Rate	**)**	
Adjustment Proceeding	**)**	

SUR-REBUTTAL TESTIMONY EXHIBITS OF:

Industrial Customers of Northwest Utilities

SUBJECT:

TRANSMISSION RISK

WITNESS:

Bradley G. Mullins

March 30, 2015

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Standard and Poor's Press Release (August 8, 2011)

STANDARD
&POOR'S

Global Credit Portal®
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August 8, 2011

Ratings On Energy Northwest, WA And Bonneville Power Administration, OR Lowered To 'AA-/Stable'

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NEW YORK (Standard & Poor's) Aug. 8, 2011--Standard & Poor's Ratings Services lowered its rating on Energy Northwest (ENW), Wash.'s revenue bonds and the several nonfederal debt obligations that the Bonneville Power Administration (BPA), Ore., pays as operating expenses of its electric system to 'AA-' from 'AA'. The outlook is stable. The rating action reflects the interplay between our rating on the United States of America (AA+/Negative/A-1+) and BPA's 'aa-' standalone credit profile. Because the United States government's rating is now 'AA+,' and because we believe that there is a "moderately high" likelihood that the U.S. government would provide extraordinary support to BPA under our government-related entities criteria, we no longer provide ratings uplift to BPA's 'aa-' standalone credit profile.

BPA has no direct capital markets debt, but has entered agreements that we understand require it to treat debt service on $6.2 billion of nonfederal debt as an operating expense ahead of servicing $6.9 billion of federal debt. Although ENW's bonds are subordinate ENW obligations, ENW covenanted to close the prior lien. Closed-lien, senior debt represents less than 8% of nonfederal debt.

BPA's nonfederal obligations include:
- $5.9 billion of ENW revenue and refunding bonds;
- $122.4 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;
- $22.8 million of Northern Wasco Public Utility District, Ore. (McNary Dam

Project) bonds;
- $13.7 million of conservation and renewable energy system bonds; and
- $8.1 million of Tacoma, Wash., conservation system project bonds.

The stable outlook reflects our view that Bonneville's standalone credit profile could withstand even the possibility of some further negative rating actions on the federal government's sovereign ratings, if such actions were to occur. Also, we think the nearly 8% average rate increases established in BPA's recently concluded rate proceeding covering the two fiscal years beginning in October 2011, will help address recent years' erosion of debt service coverage and liquidity due to weak hydrology conditions and soft wholesale power markets. We expect that the rating could be lowered if BPA continues producing cash basis coverage of federal and nonfederal obligations below 1x, as it did in 2009 and 2010, and its robust liquidity cushion continues eroding.

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

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Moody's Press Release (March 27, 2014)

Moody's
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Energy Northwest's (WA) Columbia Generating Station and Project 3 revenue bonds. Rating outlook is stable.

Global Credit Research - 27 Mar 2014

Approximately $6.9 billion of debt securities affected

ENERGY NORTHWEST, WA
Electric Distribution and Generation
OR

Moody's Rating

ISSUE		RATING
Columbia Generating Station Electric Revenue Bonds, Series 2014-A		Aa1
Sale Amount	$530,965,000	
Expected Sale Date	05/14/14	
Rating Description	Revenue: Government Enterprise	
Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2014-B (Taxable)		Aa1
Sale Amount	$90,675,000	
Expected Sale Date	05/14/14	
Rating Description	Revenue: Government Enterprise	
Project 3 Electric Revenue Refunding Bonds, Series 2014-A		Aa1
Sale Amount	$26,010,000	
Expected Sale Date	05/14/14	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, March 27, 2014 --Moody's has assigned a Aa1 rating to Energy Northwest's (ENW) $531 million of Columbia Generating Station (CGS) Electric Revenue Bonds, Series 2014-A; $26 million of Project 3 Electric Revenue Refunding Bonds, Series 2014-A; and $91 million of Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2014-B (Taxable). These bonds are supported by net billing agreement with Bonneville Power Administration (BPA, Aa1/stable) and thus are rated the same as BPA's other supported obligations. Moody's also affirmed BPA's Aa1 issuer rating and BPA supported ratings comprising of Project No. 1, CGS, Project No. 3, Conservation and Renewable Energy System Conservation Project, Cowlitz Falls Hydroelectric Project, Northwest Infrastructure Financing Corp Transmission Facilities Lease, Port of Morrow Transmission Facilities Revenue Bonds, and Conservation System Project Revenue Bonds. The rating outlook is stable.

Summary Rating Rationale

The Aa1 rating on ENW's CGS, Project 1, and Project 3 and the other BPA supported revenue bonds reflect BPA's contractual obligation to pay including debt service under each respective agreement (e.g. net billing agreement), BPA's long history of meetings its contractual obligations, and BPA's Aa1 issuer rating. For ENW's Project 1 & 3, we also view positively their rapid debt amortization over the next three to four years given their status as partially completed nuclear projects.

BPA's Aa1 issuer ratings benefit from fundamental credit strengths comprising of US Government (Aaa stable) support features, strong underlying hydro and transmission assets, competitive power costs, and power supply contracts with customers through 2028. 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 drivers of implicit support. The implicit and explicit support features represents the key factor for the one notch difference between BPA's Aa1 rating and the Aa2 grid indicated rating under the US Public Power with Generation Ownership methodology.

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 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 and most challenging years since 2000. The current below average hydrology conditions further emphasizes BPA's inherent revenue volatility due to its over 80% hydro generation concentration and the importance of reserves to blunt the impact of such downside events. BPA's declining internal liquidity remains an ongoing challenge.

BPA's stable outlook considers BPA's FY 2014-15 rates, BPA's near-term ability to withstand difficult market price and hydrology conditions, and BPA's plan to maintain sizeable availability under the US Treasury line. The stable outlook on ENW's CGS, Project 1, Project 3 and other BPA supported obligations reflect BPA's stable outlook.

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US Government support diminishes, federal constraints are placed on BPA or if the US Government ratings are lowered below Aa1. Additionally, ratings on BPA supported revenue bonds could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

BPA's rating could improve over the long term if BPA is able to fully mitigate hydrology and wholesale price risk and if BPA implements policies to ensure strong internal risk reserves resulting in at least 250 days cash on hand on a sustained basis. Ratings on BPA supported revenue bonds could be upgraded if BPA is upgraded.

Detailed Credit Discussion

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. The federal hydro projects serve numerous purposes, including irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, and power generation. 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 77% of BPA's revenues in FY 2013. 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.

As of September 30th, 2013, BPA had total debt of approximately $15 billion.

USE OF PROCEEDS: Bond proceeds will be used to refund and extend maturing CGS debt, fund a portion of CGS's long term capital expenditure plans, refinancing bank debt at CGS, and pay for transaction costs. Project 3 bonds will be used to refund existing debt and pay for transaction costs.

LEGAL SECURITY: CGS's and Project 3 bonds are secured by a pledge of specific project revenues primarily sourced under the tri-party net billing agreements with BPA and project participants. The Project 3's pledge is subordinate to $178.5 million of prior lien bonds. The net billing agreements obligate the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project. In 2007, Energy Northwest and BPA adopted a new direct pay agreement whereby Energy Northwest participants directly pay all costs to BPA rather than through Energy Northwest. BPA has made a clear and tested commitment to support the payment under the net billing through more than 30 years of stressful circumstances including legal challenges in the early 1980s. There is no debt service reserve. For legal security of other rated BPA supported debt, please see Appendix 2 of 'Bonneville Power Administration: On the Hunt for New Capital Sources' credit focus report for description.

INTEREST RATE DERIVATIVES: BPA's bank financed lease debt has approximately $950 million of notional interest rate swaps with aggregate mark to market value of negative $19 million as of February 2014. We understand there are no collateral posting requirements under any conditions.

KEY RATING FACTORS

EXPLICIT AND IMPLICIT US GOVERNMENT SUPPORT FEATURES REPRESENT A MAJOR STRENGH

While BPA's obligations do not benefit from the full faith and credit of the United States Government, BPA benefits from significant explicit and implicit support elements from the US Government. These support factors primarily consist of a $7.7 billion borrowing line ($3.8 billion available), ability to defer payments to the US Treasury, BPA's role as a line agency of the US Department of Energy, and its broader importance to the US Northwest.

BPA is authorized to sell to the US Treasury $7.7 billion principal amount of bonds. At September 30, 2013, BPA had $3.89 billion of outstanding borrowings with the US Treasury. The borrowed funds are to be primarily used to fund capital programs including $1.25 billion allocated for conservation and renewable investments. As subset of the $7.7 billion, BPA has a $750 million line of credit, which can be used to fund BPA's operating expenses.

BPA also is required by statute to defer its annual Treasury payments if funds are needed to meet its non-federal debt obligations like the ENW's net billed revenue bonds and thus BPA's US Treasury obligations are considered subordinated to BPA's non-federal debt service obligations. The deferral ability provides BPA a major source of financial flexibility under extreme situations though BPA has not deferred such payments since 1983 and any deferral is likely to have negative political implications. In FY 2013, BPA made debt service payments amounting to $591 million to the US Treasury.

Strong qualitative considerations for implicit support include BPA role as a line agency of the US Department of Energy and importance to the US Northwest region. Beyond power and transmission services in the northwest, BPA is also responsible for certain treaty responsibilities with Canada, significant regional environmental protection programs, and coordination of river operations. Northwest US representation on key US House and Senate committees that deal with energy legislation is a credit strength. That said, the recent announced retirement of Doc Hastings (WA) who is the Chairman of the House National Resource Committee is viewed negatively.

Overall, we see these strengths as providing at least a 2-3 notch lift to BPA's standalone credit quality and represent key considerations for BPA's Aa1rating. In a major stress scenario, Moody's expects any US Government support to BPA is likely to be provided through the established US Treasury credit line or deferral of payments to the US Treasury.

DOMINANT TRANSMISSION AND POWER PROVIDER IN REGION

BPA's dominant hydroelectric generation and transmission assets in the Pacific Northwest are considered one of BPA's key fundamental strengths. BPA has roughly 75% of the Pacific Northwest's bulk transmission consisting of 15,000 miles of high voltage transmission lines and 300 substations and other facilities located in BPA's service area.

BPA also indirectly markets energy to nearly 12 million people from 31 federally owned hydroelectric facilities most of which are located on the Columbia River. Output of the federal hydro system provides more than a third of electric power consumed in the region. With almost 22 GW of capacity, BPA is one of the largest rated public power issuer by generating capacity albeit smaller than TVA's 38 GW or large investor owned utilities such as Southern Company's 50 GW and Duke's 65 GW.

HIGHLY COMPETITIVE RATES REPRESENT KEY VALUE PROPOSITION TO THE REGION

Another BPA's major strength is its highly competitive rates charged to its customers. Despite the 9% increase in rates for FY 2014 and 2015, BPA's FY 2014 average tier 1 rate of around $31.5/MWh is significantly below comparable rates across the US, has remained low on an inflation adjusted basis over the last 30 years, and is competitive in the region. BPA's competitive rates represent a key value proposition to BPA's customers and the Pacific Northwest region that enhances BPA's importance. Additionally, BPA's competitive costs boost rate flexibility all else being equal. Moody's expects the long-term fundamental strength of BPA's hydroelectric and transmission assets to support BPA's competitive rates and BPA remains well positioned against potentially tougher emissions regulations such as CO2.

LONG TERM CONTRACTS FOR POWER SALES SUPPORT CREDIT QUALITY

Long-term power sales contracts maturing in 2028 with 133 municipally owned utilities, cooperatively owned utilities, and federal agencies support the majority of Power Services's cash flow and BPA's long-term credit quality. Sales to these customers totaled approximately $1.8 billion in FY 2013 and represent BPA's largest revenue segment at nearly 55% of total revenues. Snohomish County PUD 1 Electric Enterprise, WA (Aa3/stable) is BPA's largest preference customer at 11% of sales and the top ten customers represent approximately 50% of sales assuming conservative water flows. Eight of the top ten customers are highly rated in the 'A' to 'Aa' category and seven are located in Washington State.

Under these long term contracts, BPA provides two services; Load Following and Slice/Block. Load Following customers receive power tied to their net requirements and account for roughly 47% of 2013 total sales (MWh) to Preference Customers. Slice/Block customers receive a combination of fixed blocks of power and a portion of the federal hydro system generation. The Slice portion of the contracts transfer hydrology risk to BPA's customer, which is a credit benefit to BPA. The 16 regional Slice/Block contracts account for roughly 53% of 2013 sales.

LONG AND COMPLEX RATEMAKING PROCESS COULD DELAY TIMELY RECOVERY

BPA's ratemaking procedure involves an extensive process that shares similarities with a rate regulated utility and could create complications and delays in timely recovery of BPA's costs. Northwest Power Act contains specific ratemaking procedures for BPA, mandates justification and reasons in support of such rates, and requires a hearing. The BPA Administrator ultimately decides the rate based on the hearing record including all information submitted. Rates established by BPA may become effective only upon confirmation and approval by FERC. Currently, BPA has rate cases every two years. In a stress situation, BPA could file an expedited rate with FERC and the whole process could take several months for an interim rate approval. Furthermore, within a rate period, BPA is able to charge up to an additional $300 million per year starting at the beginning of the fiscal year under the Cost Recovery Adjustment Clause (CRAC) if Power Service's accumulated net revenue is below negative $180 million. A separate NFB Adjustment for certain environmental costs can raise the $300 million CRAC limit. While the CRAC mechanism adds some flexibility to BPA's two year rate periods, the annual basis of the test and low trigger point limit the benefit of the CRAC mechanism.

Moody's notes that BPA is required by law to propose rates to meet all its costs and that BPA proposes rates at levels whereby it can meet its US Treasury payments at a 95% confidence level based on its cash flows and reserves. BPA's approach should ensure a high probability of near-term payments to the US Treasury and an extremely high probability of near-term timely payments on non-federal debt service.

Notwithstanding the lengthy ratemaking process that BPA operates under, we note that BPA has historically demonstrated a willingness to raise rates in difficult situations such as the power crisis of 2000-2001 when BPA raised rates by 46%. That said, BPA rate setting has historically resulted in low consolidated financial metrics and declining internal reserves since 2008 that reduces resiliency to unexpected events.

BPA HAS A SIGNIFICANT EXPOSURE TO HYDROLOGY AND WHOLESALE POWER PRICE RISKS

BPA's financial results can be materially impacted by hydrology in the Columbia River Basin and wholesale power prices since wholesale power sales represent roughly 10-20% of total revenues in a typical year. Since 2001, hydrology has been extremely volatile with high and low around 130% and 60%, respectively, of the long term average. For FY 2014, regional hydrology was significantly below average during the region's winter peak power needs. Recent rain and snow has resulted in forecasts for average water conditions for the full fiscal year.

Similarly, power prices have also been volatile with a recent peak nearing $60/MWh in 2008 and a low below $20/MWh in 2012. These factors, which are outside of BPA's control, have contributed heavily to nearly a $1 billion swing in net revenues between the best (2006) and most challenging years (2001). We do not expect major improvement in wholesale revenue for the foreseeable future given low demand growth and forward market prices between $30/MWh to $35/MWh, which are far below the 2006-2008 average of around $53/MWh. Actual realized prices by BPA could be lower given the large amounts of new wind in the region and the correlation between peak wind energy production and BPA's peak surplus energy sales.

LOW CONSOLIDATED FINANCIAL METRICS AND DECLINING RESERVES

Moody's views liquidity as a key mitigant to BPA's exposure to hydrology and wholesale price volatility. For FY 2013, BPA had reserves for risk totaling $641 million (117 days cash on hand) compared to $1.3 billion (276 days cash on hand) in 2008. The downward trend is expected to continue. For FY 2014, we expect BPA's internal reserves for risk to decline further to between $480 million and $600 million depending on hydrology conditions for the remainder of the fiscal year. Given the decline in BPA's internal reserves, BPA is increasing its reliance on the $750 million operating expense availability under the $7.7 billion US Treasury line as a source of liquidity for operations. The line of credit expires in October 30, 2015 and any draw needs to be repaid by October 30, 2016. Our rating incorporates the assumption that the line will continue to be extended prior to maturity. We understand BPA is considering a reserve policy and we would view a robust policy that emphasized internal reserves to be credit positive.

On a fully consolidated basis including federal debt, BPA's debt ratio and debt service coverage ratio (DSCR) are low for the rating. Total DSCR has averaged around between 1.0 to 1.1x over the last three years, which was supported by near average to above average hydrology. Looking forward for FY 2014 and 2015, we expect BPA's total DSCR to be around 1.0x depending on hydrology. Excluding federal debt, BPA FY 2013 financial metrics are stronger with non-federal DSCR of 1.73x and non-federal debt ratio of 44% (vs total debt ratio of 96%). These stronger metrics highlight the substantial benefits of federal debt's effective subordination to non-federal debt and these benefits are supportive of the Aa1 rating on non-federal debt.

HIGH CAPITAL EXPENDITURES DRIVES HUNT FOR CAPITAL

BPA's large spending capital program averaging over $1 billion per year through at least 2017 is a concern since BPA forecasts that its capital needs will result in its $7.7 billion US Treasury line becoming fully utilized by 2017 without using alternate sources of capital. BPA does not have the ability to directly issue debt publically. The capital expenditures program includes modernizing aging infrastructure, integrating new renewable generation, energy efficiency, and environmental costs. To extend the availability of the US Treasury line, BPA has developed a comprehensive plan, released in 2013 for a rolling 10-year period.

The plan relies on several alternative financing tools such as lease financing, a power prepaid program, conservation third-party financing, reserve and revenue financing, and prioritizing proposed capital investments. BPA has utilized lease financing since 2004 and completed a power prepay in 2013. Moody's incorporates the assumption that, through the use of these alternative financing tools, BPA will maintain significant availability under the US Treasury line. BPA forecasts maintaining at least $2 billion in most scenarios through at least 2017. Moody's views availability of the US Treasury line one of the credit foundations for BPA since it represents a source of explicit US government support and an important source of external liquidity.

COST BURDEN OF NUCLEAR PROJECTS

Of the original five planned nuclear units, CGS is the only one in operation with all the power economically dispatched by BPA. Consequently, BPA only benefits from power generated at CGS but remains responsible for debt at Project No 1, CGS and Project No 3 that increases BPA's debt burden while reducing BPA's competiveness. Project 4 and 5 defaulted since they did not have net billing agreements. The debt at all three projects totaled $5.5 billion at FY 2013 and represented 80% of BPA's non-federal debt and 36% of BPA's total debt. That said, Project 1 & 3 debts totaling $2.3 billion are expected to be repaid by 2017 and 2018, respectively, which should provide BPA greater financial flexibility that we expect will be offset by rising CGS capital expenditures and debt financed through alternate capital funding sources (e.g. leases). While the Energy Northwest's nuclear related debt is a substantial burden on BPA, Moody's recognizes that the 1,150 MW CGS nuclear plant operates and provides almost 10% of BPA's energy resources.

ENVIRONMENTAL COSTS PUT ADDITIONAL PRESSURE ON CREDIT QUALITY

BPA faces conflicting uses of the Columbia River and environmental regulations, such as the Endangered Species Act (ESA), that contribute significantly to BPA's costs and weighs heavily on BPA's cash flows and competitiveness. Biological opinions prepared by National Oceanic and Atmospheric Administration Fisheries Service and the US Fish and Wildlife Service mandates actions to protect fish species resulting in direct costs such as hatcheries and indirect loss of revenue from hydro dam operational changes. For FY2013, BPA estimates total fish and wildlife costs at approximately $682 million consisting of $461 million in direct costs and $221 million of indirect costs. BPA was able to recover the non-power related environmental costs totaling $84 million from the US Treasury in FY 2013.

KEY STATISTICS

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

Non-Federal Debt Service Coverage Ratio, 2013 (reported): 2.2 times

Non-Federal Debt Service Coverage Ratio, 2013 (Moody's): 1.73 times

Total Debt Service Coverage Ratio, 2013 (Moody's): 1.06 times

Available BPA Reserves, 2013 (encumbered and unencumbered): $ 1.27 billion

Total Reserves Available for Risk, 2013: $641 million

BPA Payment to U.S. Treasury, 2013: $692 million

Authorized Line of Credit With U.S. Treasury, 2013: $7.7 billion ($3.8 billion available)

BPA Average Tier 1 Rate, 2014: $31.50/MWh

Columbia Generating Station Nameplate Capacity: 1,130 MW

Non-federal debt, FY 2013: $6.8 billion

Federal debt, FY 2013: $8.2 billion

BPA: 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): (131) (A)

Sub factor b) Debt Ratio (10% weight): (46% [non-federal only]-Aa) / (98% [total debt]-Baa)

Sub factor c) Adjusted Debt Service Coverage (10% weight): (1.98x [non-federal only]-A) / (1.08x [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]

ENW CGS: JAA TAKE OR PAY METHODOLOGY FACTORS:

1 Participant Credit Quality and Cost Recovery Mechanism (45%): Aa1

2. Asset Quality (15% weight) Baa (baseline factor)

3. Competitiveness (15% weight): Baa (baseline factor)

4. Financial Strength:

Sub factor a) Adjusted Days Liquidity on Hand: (10%weight): Baa (baseline factor)

Sub factor b) Debt Ratio: (10% weight): Baa (baseline factor)

Sub factor c) Debt Service Coverage Ratio: (10% weight): Baa (baseline factor)

Grid Indicated Rating: Aa1

Notching: None

Scorecard Indicated Rating: Aa1

ENW PROJECT 1 & 3: JAA TAKE OR PAY METHODOLOGY FACTORS:

1 Participant Credit Quality and Cost Recovery Mechanism (45%): Aa1

2. Asset Quality (15% weight) B (baseline factor)

3. Competitiveness (15% weight): B (baseline factor)

4. Financial Strength:

Sub factor a) Adjusted Days Liquidity on Hand: (10%weight): Baa (baseline factor)

Sub factor b) Debt Ratio: (10% weight): B (baseline factor)

Sub factor c) Debt Service Coverage Ratio: (10% weight): Baa (baseline factor)

Grid Indicated Rating: A3

Notching:

Scorecard Indicated Rating: A3

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

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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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Fitch Press Release (April 7, 2014)

Energy Northwest, Washington and Bonneville Power Administration, Oregon

Electric Revenue Bonds

New Issue Report

Ratings

New Issues

Approximately $530,965,000 Columbia Generating Station Elec. Rev. Rfdg. Bonds, Series 2014-A	AA
Approximately $90,675,000 Columbia Generating Station Elec. Rev. Rfdg. Bonds, Series 2014-B (Taxable)	AA
Approximately $26,010,000 Project 3 Elec. Rev. Rfdg. Bonds, Series 2014-A	AA

Outstanding Debt

$1,048,005,000 Project 1 Bonds	AA
$3,163,200,000 Columbia Generating Station Bonds	AA
$1,229,245,000 Project 3 Bonds	AA
Bonneville Power Administration, Implied Revenue Obligations	AA

Related Ratings

$84,740,000 Port of Morrow Transmission Facilities Revenue Bonds, Series 2012	AA
$87,995,000 Lewis County PUD No. 1 Cowlitz Falls Hydroelectric Rev. Rfdg. Bonds, Series 2013	AA

Rating Outlook

Stable

Key Utility Statistics

Fiscal Year Ended 6/30/13

System Type	Wholesale
NERC Region	WECC
No. of Customers	135
Annual Revenues ($ Mil.)	$3,346.3
Fuel Dependency (%)	Hydro
ENW Bond Debt Service Coverage (x)	1.88
Total Debt Service Coverage (x)	1.05
Days Operating Cash	96
Equity/Capitalization (%)	14

Related Research

U.S. Public Power Peer Study Addendum — February 2014 (February 2014)

2014 Outlook: U.S. Public Power and Electric Cooperative Sector (Calm Under Pressure) (December 2013)

U.S. Public Power Peer Study — June 2013 (June 2013)

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New Issue Details

Sale Information: The bonds are scheduled to price the week of April 7, 2014, via negotiation.

Security: Energy Northwest (ENW) bonds are secured by payments from the Bonneville Power Administration (Bonneville). Bonneville's payment to ENW is made as an operating expense, prior to the U.S. Treasury ($3.9 billion) and federal appropriations ($4.3 billion).

Purpose: Approximately $200 million of the proceeds will fund new improvements to the Columbia Generating Station (CGS). Remaining proceeds will refund outstanding bonds for savings, extend the 2014 maturity, and pay cost of issuance.

Final Maturity: Series 2014A: July 1, 2040; Series 2014B: July 1, 2015.

Key Rating Drivers

Bonneville's Obligation Secures Bonds: The ratings on the ENW, Cowlitz Falls, and Port of Morrow bonds reflect the credit quality of Bonneville, and its absolute and unconditional obligation to make payments for debt service.

Competitive Regional Supplier: Bonneville has a competitive resource portfolio of 8,506 average annual megawatts (aMW) that provides wholesale electricity (primarily low-cost hydropower) to a population of more than 12 million in the Pacific Northwest region.

Low-Risk Power Sales Contracts: Bonneville sells power through long-term, take-or-pay contracts through 2028 that recover cost of service from 125 preference customers. New contracts went into effect in fiscal 2012 that limit Bonneville's financial exposure to member load increases and lower than expected output from the federal system.

Two-Year Rate Setting: Bonneville sets rates based on a two-year rate cycle, with mid-period cost adjustments allowed. Increases in Bonneville's tier 1 power rate (9%) and transmission rate (11%) in fiscal 2014 are expected to stabilize financial performance.

Wholesale Market Risk Reduced: Bonneville's financial performance relies on net secondary revenues from wholesale market power sales. Lower than expected net secondary revenues have pressured financial margins and reserves. Positively, Bonneville has lowered its reliance on forecast secondary revenues in its past two rate cases.

Declining Power Reserves: Declining reserves remain a concern, but are mitigated by interim rate setting available to Bonneville and a $750 million federal line of credit with Treasury.

Limited Capital Access: Bonneville's access to capital is limited, as it cannot issue debt and has a $7.7 billion ceiling on borrowing from Treasury. However, Fitch Ratings expects access to alternative forms of financing will be sufficient to meet Bonneville's capital needs.

Rating Sensitivities

Further Revenue and Reserve Declines: A continuing trend of lower than expected net secondary revenues and declining cash reserves could pressure the ratings.

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	3/28/14
AA	Affirmed	Stable	5/31/13
AA	Affirmed	Stable	8/01/12
AA	Affirmed	Stable	6/1/11
AA	Affirmed	Stable	12/9/10
AA	Affirmed	Positive	2/19/10
AA	Upgraded	Positive	3/4/09
AA–	Affirmed	Positive	3/9/08
AA–	Affirmed	Stable	3/12/04
AA–	Downgraded	Stable	3/12/03
AA	Affirmed	Stable	3/19/02
AA	Affirmed	—	11/16/01
AA	Upgraded	—	5/3/00
AA–	Affirmed	—	12/15/97
AA–	Affirmed	—	10/7/96
AA–	Downgraded	—	8/17/95
AA	Affirmed	—	1/24/94
AA	Affirmed	—	9/7/93
AA	Affirmed	—	9/8/92

Implied Revenue Bond — Bonneville Power Administration Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	3/28/14
AA	Affirmed	Stable	5/31/13
AA	Affirmed	Stable	8/01/12
AA	Affirmed	Stable	6/1/11
AA	Affirmed	Stable	2/28/11
AA	Assigned	Stable	12/9/10

Related Criteria

U.S. Public Power Rating Criteria (March 2014)

Credit Profile

Energy Northwest

ENW, formerly known as the Washington Public Power Supply System, was created in 1957. ENW has 27 members, consisting of 22 public utility districts and the cities of Centralia, Port Angeles, Richland, Seattle, and Tacoma, WA. ENW owns and operates CGS, the Packwood Lake Hydroelectric Project, and the Nine Canyon Wind Project. ENW also has financial responsibility for Projects 1 and 3, its terminated nuclear projects.

Bonneville Power Administration

Bonneville is the key power agency in the Pacific Northwest, and its role in the region is critical. Bonneville's estimated service area includes 12 million people, and extends across Idaho, Oregon, and Washington, as well as portions of Montana, Wyoming, Nevada, Utah, and California. Bonneville's system accounts for approximately 33% of the electricity sold in the region and 75% of the transmission infrastructure.

Bonneville is the largest of four federal power marketing administrations (PMAs) within the Department of Energy (DOE). The PMAs were formed by the federal government (Bonneville in 1937) to sell power from federal flood control and irrigation projects to repay the investment and supply power to rural areas of the country. Bonneville sells energy produced from 31 hydroelectric plants owned and operated by the U.S. Army Corps of Engineers or the U.S. Bureau of Reclamation. Bonneville is required by statute to sell the power at cost-based rates, with a preference given to public utility districts and cooperatives.

Bonneville also markets energy from nonfederal projects, the largest of which is CGS. CGS is a 1,157-MW nuclear plant (approximately 10% of Bonneville's total power supply). Bonneville is obligated to pay debt service on the ENW bonds related to CGS and Projects 1 and 3, two non-operating nuclear projects.

Bonneville Rating Not Based on Federal Support

Fitch's ratings on Bonneville's implied revenue obligations and the related ENW, Port Morrow, and Lewis County Public Utility District (PUD) No. 1 bonds reflect the credit quality of the administration as a self-supporting entity. While Bonneville is an agency within the DOE, Fitch believes there is an indication of direct federal support for Bonneville's nonfederal obligations in the event of fiscal distress. Bonneville's subordinate obligations to the U.S. Treasury offer an advantageous structural feature, in that Bonneville may defer payment to the Treasury, if necessary, which provide flexibility to the payment obligations ahead of Treasury. A linkage with the federal government exists in the form of governance by the DOE (including the DOE's current assumption of all hiring decisions at Bonneville), appointment of the administrator, congressional approval on Bonneville's budget, and the banking and lending relationship with Treasury, with all revenues and expenditures required to move through the Bonneville Fund held at Treasury.

Governance and Management Strategy

Coordination Between ENW and Bonneville Viewed as Low Risk

ENW is governed by a 27-member board of directors, with one board member representing each of ENW's member systems. The board works cooperatively with Bonneville regarding the management of the debt obligations related to CGS and Projects 1 and 3, as well as the operations of CGS. Bonneville's authority is vested in the secretary of energy, who appoints the Bonneville administrator or CEO.

Business Strategy Focus on Capital Investment, Financial Reserves, and Transmission

The focus of Bonneville's business strategy includes capital reinvestment in the system, financial stability, environmental issues, energy efficiency, and transmission grid capacity and flexibility. Bonneville's relationship with its customers appears strong at this time, and the parties are working together to address capital funding issues and reduce Bonneville's reliance on net secondary revenues in its rates.

Fitch Concerned about DOE Investigation, but Not a Key Risk to Credit Quality

In a report released in October 2013, the DOE detailed hiring practices that had occurred systematically at Bonneville, which led to the exclusion of qualified candidates from job consideration. In a number of cases, the excluded candidates were veterans, whose preference status under federal hiring practices was not honored. The DOE placed two top officials at Bonneville on administrative leave in the summer of 2013 as a result of the findings and revoked Bonneville's hiring authority, which has not yet been restored. All hiring must be coordinated through the DOE. As required by the DOE, Bonneville is in the process of reconstructing 1,250 hiring decisions to see if any qualified candidates were inappropriately excluded. Bonneville estimated it had completed around 50% of the expected reviews in March 2014.

Fitch believes the DOE investigation, turnover at the senior management level, and the workload to review past hiring decisions represents a distraction to Bonneville management and staff. However, the financial costs related to the investigation should be manageable and easily absorbed within annual operations. The appointment of permanent senior management in February 2014 and progress towards restoration of Bonneville's independent hiring authority are viewed as positive developments.

FERC Rate Oversight Designed to Protect Treasury Repayment

Bonneville's power and transmission rates are regulated by the Federal Energy Regulatory Commission (FERC), which reviews the administration's rates to ensure full cost recovery and revenue sufficient to repay its Treasury obligations. FERC reviews Bonneville's transmission rates to further ensure they are nondiscriminatory, as well as just and reasonable.

Assets and Operations

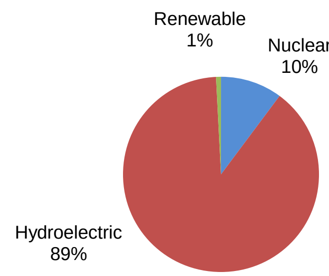
Power Supply Is Carbon Free

Bonneville markets energy from a predominantly hydroelectric generation portfolio, which poses unique risks and challenges from a forecasting and balancing standpoint, but offers tremendous advantages as a low-cost, carbon-free resource. To manage hydroelectric variability, Bonneville sells excess generation during the spring run-off months, and purchases energy in other months to shape energy supply to its preference customer load profiles, many of whom are winter peaking utilities.

The federal hydroelectric projects were constructed between 1941 (Grand Coulee) and 1975 (Lower Granite, Libby, and Lost Creek), and are operated by the U.S. Army Corps of Engineers or the Bureau of Reclamation. Bonneville has begun the overhaul of all six generating units of Grand Coulee (4,994 MW), which is expected to be a 10-year project. Grand Coulee accounts for 23% of the total generating capacity in a median water flow scenario. The single site risk of this facility is balanced against the importance of the project's broad federal mission aside from power supply, which is primarily flood control and irrigation. The Grand Coulee dam is the largest concrete structure built in the U.S. The lake behind the dam, Lake Roosevelt, is the main storage reservoir for the Columbia River system.

CGS provides a baseload resource to the portfolio that is also carbon free. Although neither the federal government nor the states in Bonneville's service area have imposed a carbon tax or greenhouse gas limitation on generators, pressure for stricter guidelines is growing. Bonneville's portfolio is relatively stable and not expected to change or grow other than efficiency investments. However, aging facilities at the hydroelectric plants demand capital investment.

Bonneville Fuel Type by Capacity



Source: Bonneville's Median Energy Scenario.

Financial Planning Based on Average Water Conditions

The table below shows the wide range of outputs (in aMW) for Bonneville's resources, and how highly dependent the federal system is on water flows throughout the region. For operational planning purposes, Bonneville uses an assumption of water conditions below the 30-year

Bonneville's Energy Estimates — 2014

	Capacity (Peak MW)	High Water Flow Energy (aMW)	Median Water Flow Energy (aMW)	Low Water Flow Energy (aMW)
Bureau of Reclamation Hydro Projects	5,345	2,909	2,655	2,177
U.S. Corps of Engineers Hydro Projects	12,572	7,554	6,306	4,693
Nonfederally Owned Projects (Including CGS)	1,191	1,172	1,156	1,152
Federal Contract Purchases	893	501	494	484
Total Federal System Resources	20,001	12,136	10,611	8,506

aMW – Average MW. CGS – Columbia Generating Station.
Source: Bonneville Power Administration.

average, referred to as critical water. Bonneville estimates the total federal system will produce 8,506 aMW of firm energy under critical water conditions in fiscal 2014. This represents the amount of firm energy (Tier 1) Bonneville plans to have available to divide among its preference customers, based on their preference allocations. Bonneville estimates Tier 1 demand from its preference customers in fiscal 2014 will be 7,115 aMW. Bonneville sold 6,876 aMW of Tier 1 power in fiscal 2013.

For ratemaking and financial planning purposes, Bonneville considers the additional energy production available for sale under average water conditions. The federal system is expected to produce 10,611 aMW for 2014, based on average water conditions. The production in excess of the critical water estimate is assumed to be sold at forward market prices, with revenues used to supplement sales to preference customers. These wholesale sales, netted against market purchases done by Bonneville during certain months of the year to shape the output of the federal system, compose net secondary system revenues.

Fitch views the use of average water conditions for ratemaking and financial planning as an optimistic assumption given the below average water conditions in nine of the past 10 years.

Columbia Generating Station Shows Strong Operations

Bonneville receives 10% of its power from ENW's CGS, pursuant to net billing agreements. CGS is a 1,157-MW nuclear plant that commenced commercial operation in December 1984. The plant has operated well, with a cumulative capacity factor of 86.1% for the past 10 years. The CGS is licensed by the Nuclear Regulatory Commission to operate through 2043. The cost of energy in fiscal 2014 is estimated at $38.49 per MWh, lower than the fiscal 2013 cost of $45.10 per MWh due to a biennial refueling outage occurring in fiscal 2013.

Environmental Costs Are Complex but Stable

Bonneville is required to protect, mitigate, and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. Environmental costs are the subject of ongoing litigation and have generally increased over time. These costs are included in Bonneville's power rates for its preference customers.

Furthermore, the power sales contracts have a cost recovery adjustment mechanism (CRAC) that allows for additional rate recovery for fish-related cost increases in between rate cases. This is viewed positively given recent litigation and uncertainty with the Columbia River System Biological Opinion. Some resolution of the issues appears to be addressed by the January 2014 opinion, with costs in the range of what had been anticipated in Bonneville's last rate case. Direct costs are around $460 million annually, and Bonneville estimates other operational costs (power replacement costs and foregone power sales revenues) at around $120 million annually.

Transmission

Bonneville's transmission operations have grown from providing around 16% of revenues 10 years ago to 25% of overall system revenues in fiscal 2013. The federal transmission system, owned and operated by Bonneville, is composed of approximately 15,000 circuit miles of high-voltage transmission lines and approximately 300 substations located in six states. Bonneville's transmission business functions with aspects of a regional transmission organization, and charges users of the system in two methods: point to point service or system integration.

Transmission customers are a wider group than Bonneville's 125 preference customers and include investor-owned utilities (IOUs) and power generators in the region.

Bonneville's transmission business has been focused on infrastructure additions needed to interconnect new wind generation projects to the broader transmission grid during the past 10 years. Bonneville estimates these costs account for over half of the 11% transmission rate increase put into effect Oct. 1, 2013. This was the first transmission rate increase in eight years. Bonneville continues to face challenges associated with integration of a substantial amount of wind generation into its transmission system given its variable output and the potential impact to reliability.

Oversupply Management Protocol

Bonneville continues to address challenges related to significant excess energy and the curtailment of nonfederal generation in the region. The administration filed an oversupply management protocol rate proposal with FERC in 2014 that will compensate wind generators for eligible costs they incur as a result of being displaced and bill those costs through to all generators in Bonneville's balancing authority, including the federal system. Although this issue is likely to continue to generate discussion and evolve over time, it is not currently considered a key credit factor. Eligible costs in 2012 (based on the proposed 2014 proposal) would have totaled only $2.7 million, and no displacements occurred in fiscal 2013. Bonneville estimates the potential eligible costs at approximately $10 million annually under the proposed policy, although management notes that depending on water conditions and additional wind generation construction, costs could be higher.

Customer Profile and Service Area

Bonneville's transmission service area encompasses six states. The power service area is similar. The Northwest Power Act (1980) requires the administration to meet certain firm loads of various preference customers and regional IOUs in the Pacific Northwest from the federal system. Service to these customers is billed at Bonneville's lowest cost power rate — the preference rate. Bonneville also has contracts to sell firm power to certain federal agencies, although it is not required by law to serve these agencies. Bonneville does not have an obligation to meet all firm loads within the region, nor does it have an obligation to provide service to direct-service industrial customers.

Power Customers

(Power Revenue in Fiscal Year 2013)

	% of Sales
Snohomish County PUD No. 1	9
Cowlitz County PUD No. 1	6
City of Seattle, City Light Department	6
Pacific Northwest Generating Cooperative	5
Tacoma Power	5
ALCOA, Inc.	4
Clark Public Utilities	4
Powerex Corp.	3
Eugene Water & Electric Board	3
Morgan Stanley Capital Group, Inc.	3

PUD – Public utility district.
Source: Bonneville Power Administration.

Transmission Customers

(Transmission Revenue in Fiscal Year 2013)

	% of Sales
Puget Sound Energy Inc.	11
PacifiCorp	11
Portland General Electric Company	8
Powerex Corp.	7
Snohomish County PUD No. 1	5
Iberdrola Renewables Inc.	5
City of Seattle, City Light Department	4
Hermiston Power LLC	3
Clark Public Utilities	2
Cowlitz County PUD No. 1	2

PUD – Public utility district.
Source: Bonneville Power Administration.

20-Year Power Supply Contracts Limit Risks to Bonneville

Bonneville and its customers began operating under new 20-year contracts with each preference customer at the beginning of fiscal 2012, which was on Oct. 1, 2011. The new contracts limit Bonneville's role as a regional provider to the allocation of the existing federal system at cost-based rates. Bonneville is therefore no longer obligated to acquire additional generation and energy to meet growth beyond what can be met through its existing resources, unless specifically requested to do so by individual preference customers at full cost.

The limit of operational risk to Bonneville is also significant. Any decline in output or capacity in the federal system, including reductions resulting from operating constraints imposed by the Endangered Species Act, will result in a corresponding reduction in power available for sale at what are known as Tier 1 rates. Although the slice contracts do this directly with 26.7% of the Tier 1 load, the remaining customers bear this risk, and the costs will be allocated to them in the next rate case or through a midyear cost adjustment, if needed. These clarifications of Bonneville's role in meeting regional growth and the removal of operating risk are credit positives.

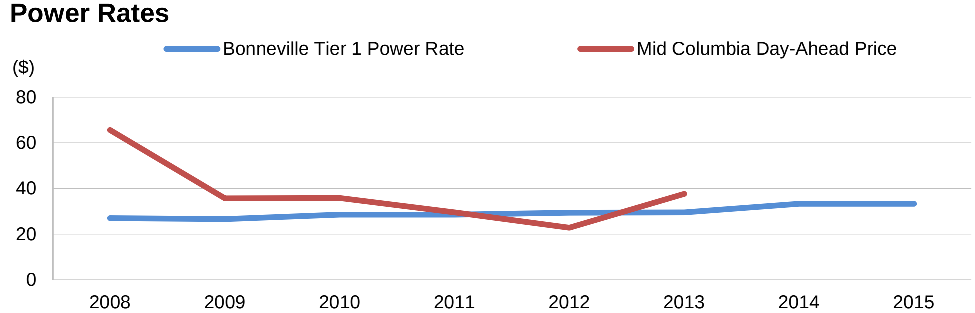
Residential Exchange Program Settlement

Residential exchange, a rate benefit provided by Bonneville to residential and small farm customers of IOUs, has been the subject of extensive debate between Bonneville and its preference customers, and the subject of litigation since initially established in 2000. A settlement reached by Bonneville and most of its preference customers in 2012 was upheld in October 2013 by the Ninth Circuit Court of Appeals. Financial payments will proceed as expected. Fitch views the payments as an exchange between customer classes. Some reserves held by Bonneville during the litigation will be disbursed, but these reserves were viewed as encumbered reserves.

Cost and Rate Structure

Bonneville establishes its power and transmission rates for two-year periods. Bonneville most recently implemented a power rate increase of 9% and a transmission rate increase of 11% on Oct. 1, 2013. Bonneville increased its tier 1 power rates to $33.32 per MWh, or $31.50 per MWh including the look-back credit and residential exchange credit. The primary driver of the power rate increase was lower assumed net secondary revenues. Bonneville's low-cost hydroelectric generation is still generally below the cost of other market alternatives.

Power Rates



Source: Bonneville Power Administration, SNL.

Bonneville's two-year rate-setting policy does not prevent the administration from adjusting rates in the interim period, as automatic adjustments may be triggered under the CRAC based on a variety of factors, including forecast year-end net revenues or to recover any borrowings from Treasury for liquidity purposes.

Bonneville uses a tiered rate methodology. This methodology allocates the output and cost recovery of the federal system resources within Tier 1 rates. These rates recover costs relating only to operation of the federal system, including fish and wildlife costs and certain net billed projects, such as CGS, and Nuclear Projects 1 and 3. Tier 1 rates absorb the positive or negative effect from Bonneville's secondary sales of energy derived from the federal system. The allocation of the federal resources to preference customers at Tier 1 rates was based on each customer's net requirements as a percentage of all preference customers calculated at the end of fiscal 2010 (Sept. 30, 2010).

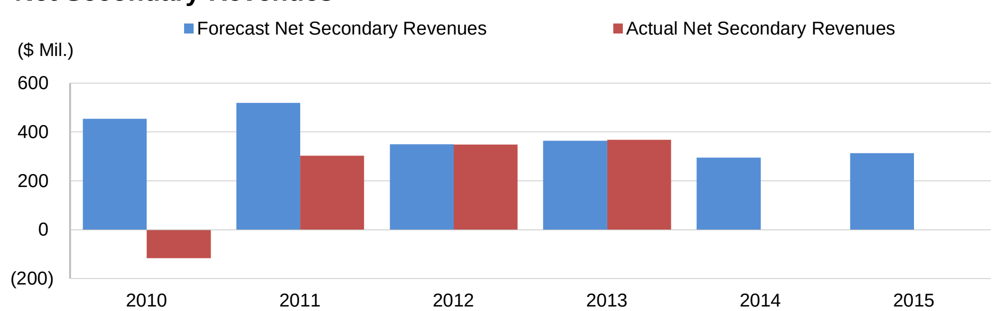
Customers can engage Bonneville to provide Tier 2 power, to the extent their load grows beyond their Tier 1 allocation. In these cases, Bonneville will procure the Tier 2 power on behalf of the customer and supply it at cost. However, customers have opted to acquire much of their own load growth power needs, as procuring through Bonneville has offered little cost advantage versus other providers or the market. Bonneville currently provides less than 100 MW of Tier 2 power.

Financial Performance and Legal Provisions

Bonneville has faced financial pressure for the past five years resulting from low power market prices and related revenues for its secondary sales. Bonneville's net secondary sales result from the portion of the federal system that is excess to the load demand allocated under preference contracts. Cost-based rates assume net secondary revenues based on average water conditions and forecast market prices. Bonneville's budget therefore relies on net secondary revenues in addition to its power sales revenues and transmission revenues. Secondary revenues have been lower than projected due to below average water conditions in all but three of the last 10 years.

Net secondary revenues in fiscal 2010 fell to a low of negative $116 million in fiscal 2010, but increased to $345 million in fiscal 2013. Rate setting in fiscals 2012 and 2013 incorporated lower net secondary revenue reliance than had been used historically, which bolstered performance. As shown in the chart below, net secondary revenues were very close to levels assumed in the rate case for fiscals 2012 and 2013.

Net Secondary Revenues



Note: Net Secondary equals surplus minus power purchases.
Source: Bonneville Power Administration.

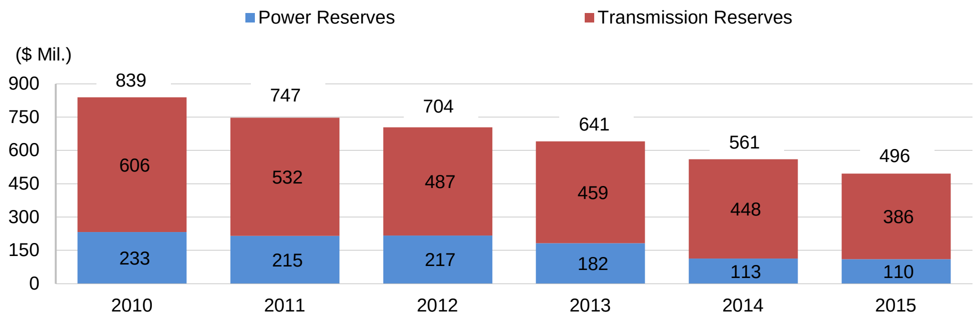
Rate setting in fiscal 2014 assumed a further reduction in net secondary sales to $295 million in fiscal 2014 and $314 million in fiscal 2015. Initial indications as of the end of the first quarter in fiscal 2014 were below this conservative forecast at a projected $164 million. Since this estimate, streamflows have increased from 80% to 101% of average levels, according the National Weather Service, and Bonneville anticipates its estimate of secondary revenues at the end of the second quarter of fiscal 2014 will be closer to the level forecast in the rate case.

Debt service coverage of the ENW debt was 1.88x in fiscal 2013. Coverage of the ENW debt and Bonneville's federal obligations was modest at 1.05x, but improved from below 1.0x in fiscal 2012, 2010, and 2009. In each of those years, Bonneville used reserves to compensate for the lower than budgeted revenues.

Financial Flexibility Provided by Line of Credit and Rate Adjusters

Bonneville's reserves have declined in recent years. However, Bonneville's risk profile has also lessened over this time period as a result of the new power contracts, flexibility to adjust rates through cost adjusters, and reduced reliance on net secondary revenues in its rate setting. Bonneville's reserves for risk, or unencumbered reserves, declined to $641 million in fiscal 2013, with $182 million in the power business line and the remaining reserves allocated to transmission. This represents 96 days of operations, but when the $750 million line of credit with the U.S. Treasury is included, Bonneville's liquidity metric is more robust at 209 days.

Bonneville Reserves for Risk[a]



[a]Projected for July 2013 rate case forecast.
Source: Bonneville Power Administration.

Bonneville's forecast in its July 2013 rate case estimate was that reserves for risk could decline further to $496 million total by the end of fiscal 2015. However, there is a high degree of variability in this estimate and actual reserve performance will depend on hydrological flows in the region, timing of those flows, and market prices. Fitch believes the reduced reliance on net secondary revenues in rate setting should provide greater stability to Bonneville's reserves.

Large Future Capital Investments Needed

As with many utilities across the county, Bonneville faces the issue of aging infrastructure and delayed capital reinvestment. Bonneville has a statutory debt limit with the U.S. Federal Treasury of $7.7 billion, complicating capital funding decisions. Bonneville currently has $3.9 billion outstanding in Treasury bonds. Of the $7.7 billion debt limit, $6.45 billion is available for transmission projects, with the remaining $1.25 million available for conservation and energy efficiency spending, and renewable resources, including capital investment at the Federal System hydroelectric facilities. Bonneville and its customers face the challenge of funding upgrades and improvements to the valuable fleet of aging hydroelectric facilities, owned by the Bureau of Reclamation and U.S. Army Corps of Engineers.

Bonneville Power Administration Capital Spending

($ Mil.)	2009	2010	2011	2012	2013	Projected 2014	2015	2016	2017	2018	Five-Year Total
Capital Spending											
Transmission	377	470	522	557	506	531	627	530	468	399	2,555
Hydro Generation	140	148	200	214	206	190	200	224	230	257	1,101
Energy Efficiency	17	58	162	80	78	75	92	95	98	101	461
Fish and Wildlife	29	41	91	58	52	50	52	55	31	19	207
Facilities, IT, Security	31	45	36	45	40	119	89	100	67	61	436
Total Annual Spending	**594**	**762**	**1,011**	**954**	**882**	**965**	**1,060**	**1,004**	**894**	**837**	**4,760**
Capital Funding											
U.S. Treasury Borrowings	409	604	798	664	632	TBD	TBD	TBD	TBD	TBD	—
Lease Purchases	120	54	77	235	207	TBD	TBD	TBD	TBD	TBD	—
Transmission Funded by Customers	49	105	107	39	9	12	15	15	15	15	72
Reserves	15	0	30	15	15	15	15	15	15	15	75
Power Prepayment	—	—	—	—	20	150	170	—	—	—	320
Unidentified	—	—	—	—	—	788	860	974	864	807	4,293
Total Annual Spending	**593**	**763**	**1,012**	**953**	**883**	**965**	**1,060**	**1,004**	**894**	**837**	**4,760**

Source: Bonneville Power Administration.

Bonneville has spent between $880 million and $1.0 billion annually on capital during the past three years. Spending in fiscal 2014 is estimated at close to $1 billion, with similar amounts annually in the future, with an expected investment of $4.7 billion over the next five years. This is in addition to around $1 billion ENW is expected to spend on CGS over the next 10 years.

Around half of Bonneville's planned spending will be targeted to transmission investments. Much of the transmission-related capital spending is anticipated to be funded through lease financings, similar to the Port of Morrow bonds issued in 2012. Additional financings by this issuer, and other conduit issuers, are expected. Bonneville also plans to spend down $15 million annually from its transmission reserves through fiscal 2021.

Similarly, Bonneville is exploring third-party financing options for energy efficiency and conservation programs. Funding for hydroelectric project improvements is expected to be funded through the $340 million received in a customer power prepayment program executed in fiscal 2013. Bonneville has also asked the ENW board of directors to consider extending the CGS debt, which would provide some additional cash flow for capital.

Legal Provisions

The ENW bonds are issued on a project-specific basis (CGS or the non-operating nuclear projects, Project 1 and Project 3), and enjoy Bonneville's pledge of payment if customer revenues under the net billing agreements are insufficient. Bonneville's debt service payments on the $5.5 billion in ENW debt are senior to its payment obligations to the U.S. Treasury.

All of Bonneville's revenues are required to be deposited in the Bonneville Fund, which is a separate fund within the U.S. Treasury. From this fund, Bonneville must first pay all costs necessary to operate and maintain the federal system, including payments on net billed bonds (i.e. ENW CGS and Projects 1 and 3, Lewis County PUD No. 1) and lease payments to Port of Morrow. Bonneville may only make required payments to the U.S. Treasury after these payments are made.

Bonneville's coverage of debt service on ENW bonds is in effect typically augmented to more than 2.0x, considering the subordination of the U.S. Treasury debt service payments.

Bonneville has not deferred its payment to the U.S. Treasury since 1983, but retains the right to do so.

Direct-Pay Agreements Versus Net Billing Agreements

Bonneville has net billing agreements with ENW that have historically required Bonneville's customers to pay their initial bills in each fiscal year directly to ENW, until ENW's expenses related to the nonfederal projects (both operating and debt related) had been satisfied. Bonneville offered customers a net billing credit, and once the obligation to ENW was satisfied, customers began remitting their bills directly to Bonneville. This practice had been viewed as a credit strength in that the funds were sent directly to ENW and were typically collected in the first few months of the fiscal years.

Bonneville and ENW entered into direct-pay agreements in 2006, which allow Bonneville to pay ENW directly for the nonfederal projects (CGS, Projects 1 and 3) instead of Bonneville customers sending payments directly to ENW in the first few months of the fiscal year, as previously occurred under the net billing agreements. The impact on ENW is collecting debt service related to the bonds over the full fiscal year instead of concentrated during the first few months of the year. The impact on Bonneville is more level revenue collections over the full fiscal year. Fitch does not view this as a material change to ENW bondholders.

Financial Summary — Bonneville Power Administration, Oregon

($000, Fiscal Years Ended Sept. 30)	2013	2012	2011	2010	2009
Cash Flow (x)					
Nonfederal Project DSC (After Payment O&M)	1.9	2.2	2.3	1.9	2.2
Total DSC of Nonfederal and Treasury Obligations	1.1	1.0	1.0	0.8	0.9
Coverage of Full Obligations	1.4	1.4	1.4	1.3	1.3
Liquidity					
Days Cash On Balance Sheet	256	224	219	212	264
Days Cash On Unencumbered Reserves	96	110	118	131	173
Days Liquidity On Unencumbered Reserves	209	228	237	248	295
Leverage (%)					
Debt/Funds Available for Debt Service	10.9	10.2	9.6	11.6	12.1
Equity/Capitalization	13.9	15.2	15.6	15.6	16.3
Equity/Adjusted Capitalization	127.3	127.9	126.8	128.1	134.1
Other (%)					
General Fund Transfer/Total Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Variable Rate Exposure/Capitalization	0	0	0	0	0
Income Statement					
Total Operating Revenues	3,346,281	3,317,850	3,284,774	3,055,131	2,870,284
Total Operating Expenses[a]	2,427,862	2,329,118	2,305,761	2,339,010	2,251,538
Operating Income					
Adjustment to Operating Income for Debt-Service Coverage	458,654	432,684	431,064	423,417	432,929
Funds Available for Debt Service	1,377,073	1,421,416	1,410,077	1,124,738	1,086,352
Total Annual Debt Service	1,314,190	1,484,606	1,387,404	1,391,444	1,259,880
Net Revenues	(105,000)	87,000	82,000	(128,581)	(101,050)
Adjusted Net Revenues[b]	56,000	128,000	N.A.	N.A.	N.A.
Balance Sheet					
Unrestricted Funds on Balance Sheet	1,399,042	1,191,354	1,145,473	1,144,454	1,371,573
Unencumbered Reserves	641,000	704,000	747,000	839,000	1,068,000
Total Debt	**15,013,366**	**14,534,245**	**13,565,534**	**13,094,599**	**13,091,563**
Equity and/or Retained Earnings	2,432,217	2,595,940	2,510,373	2,428,691	2,556,272

[a]Operating expenses shown here exclude the payment of nonfederal projects, but include cash payments to federal agencies as included in the audited financial statements. Bonneville excludes these payments in its calculation of ENW debt service coverage since they are paid with the other federal obligations. [b]Adjusted Net Revenues is a calculation done by Bonneville to reverse the impacts of debt optimization completed in early years that moved nonfederal debt repayment into the years fiscal 2012 and beyond to optimize federal borrowing authority. O&M – Operations and maintenance. N.A. – Not applicable.
Source: Bonneville Power Administration.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Moody's Press Release (July 9, 2012)

New Issue: **Moody's assigns Aa1 rating to BPA backed lease revenue bonds issued by Port of Morrow (OR). Rating outlook is stable.**

Global Credit Research - 09 Jul 2012

Approximately $6.3 billion of debt affected

BONNEVILLE POWER ADMINISTRATION, WA
Electric Generation
WA

Moody's Rating

ISSUE		**RATING**
Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 1) Series 2012		Aa1
Sale Amount	$95,000,000	
Expected Sale Date	07/10/12	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, July 09, 2012 --Moody's has assigned Aa1 ratings to Port of Morrow's $90 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 1) Series 2012. These bonds are supported by an unconditional lease payment obligation by Bonneville Power Administration (BPA, Aa1/stable) and thus are rated the same as BPA's other related obligations. The lease bonds are non-recourse to the Port of Morrow (NR). Moody's also affirmed BPA's 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, and Conservation System Project Revenue Bonds. The rating outlook is stable.

Rating Rationale

BPA's Aa1 issuer rating is supported by U.S. government support features including a $7.7 billion borrowing authority with the US Treasury and the legal ability to defer its annual US Treasury repayment (if necessary). Other factors underpinning the rating are BPA's importance to the US Northwest region, its strong underlying hydro and transmission assets, its competitive power costs and its 17-year power supply contracts with creditworthy public power entities for a large majority of power sales.

BPA strengths are offset by significant hydrology and wholesale power market exposure, environmental burdens and conflicting demands on the Columbia River, a lengthy ratemaking process compared to typical municipal public power entities, a sizeable debt burden due to nuclear projects and pressure on financial reserves and financial metrics. Growing total debt and potential full utilization of the US treasury line by 2016 represent longer term challenges.

Hydrology conditions in the Pacific Northwest and wholesale power prices represent the biggest drivers of volatility to BPA's financial performance. In recent history, these factors, both of which are outside of BPA's control, have contributed heavily to an almost a $1 billion swing in net revenues between the best (2006) and most challenging years (2001). BPA's historically strong internal liquidity was seen as a major risk mitigant and the substantial decline in internal liquidity was a major driver of the rating downgrade to Aa1 from Aaa in August 2011. For fiscal year 2012, regional hydrology is estimated at substantially above average though market prices are low. According to BPA's May 2012 monthly financial report, lower net revenue for the BPA's power services segment is expected to result in $21 million in lower total revenue than compared to its rate case, which is an improvement from its February 2012 expectation of approximately $80 million below the rate case.

The Aa1 ratings on BPA's related ratings including the Port of Morrow lease revenue bonds are based on BPA's contractual obligation to pay under long term agreements.

The stable outlook reflects BPA's unconditional and absolute obligation to pay. BPA's stable outlook incorporates BPA's baseline expectations according to its FY 2012-13 rate case and BPA's near-term ability to withstand difficult market price and hydrology conditions.

BPA's rating could improve over the long term 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.

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US government support diminishes, federal constraints are placed on BPA or if the US government ratings are lowered below Aa1. Additionally, BPA related ratings could be downgraded if BPA is downgraded or if the underlying contracts (e.g. net billing agreements) are violated.

Detailed Credit Analysis

Background on BPA

BPA was created in 1937 by an act of the US Congress and is now 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: Washington, Oregon, Idaho, Montana, Wyoming, Utah, California and Nevada. 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 73% of BPA's revenues in FY 2011. 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 subject to approval by the Federal Energy Regulatory Commission (FERC) to ensure full-cost recovery. Federal law requires BPA to meet specified energy requirements in the Northwest region. BPA is also required to implement conservation measures and to provide transmission services. The federal hydro projects also serve numerous purposes, including irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection, and power generation. The amount of power produced by the federal hydro generation units varies with annual precipitation and other weather conditions.

Legal Security:

Bond security is the pledge of the lease agreement between the Port of Morrow and BPA to lease certain transmission lines and related equipment. BPA's obligation to make lease payments is absolute and unconditional and is payable without any set-off or counterclaim, regardless of whether or not the Project is operating or operable. The lease is co-terminus with the bonds and the lease payments have been structured to match debt service payments including the lease bond's bullet maturity expected in 2042. The bond trustee has the right to receive all lease payments and BPA will directly make the lease payments to the bond trustee. There is no debt service reserve.

Use of Bond Proceeds:

The proceeds of the offering is expected to be used to refinance all of the existing debt at Northwest Infrastructure Financing Corporation II ("NIFC II") and pay transaction costs.

Credit Fundamentals

Strengths

- BPA benefits from U.S. government support including limited direct borrowing authority with the US Treasury and the legal ability to defer its annual US Treasury repayment if necessary to meet non-Federal debt service commitments (such as Energy Northwest nuclear bonds). BPA has established the planning policy of meeting a 95% probability over the next two years of making its U.S. Treasury payment on time, a key strategy to ensure timely revenue bond debt service payment

- BPA's extensive hydroelectric system strongly anchors its competitive wholesale rate position relative to market based prices over the long term

- BPA owns and operates 75% of the bulk transmission system in the US Northwest and markets low cost hydroelectric power amounting to 30% of the region's power

- BPA sells a majority of its power under 17-year power supply contracts with creditworthy public power entities and derives roughly a quarter of revenues from a stable electric transmission business

Challenges

- Significant exposure to hydrology risk and wholesale power markets contributes to cash flow volatility

- Long and complex ratemaking process creates potential complications in timely rate recovery

- Conflicting uses of the Columbia River, (flood control, irrigation, navigation, recreation, municipal and industrial water supply, fish and wildlife protection and power generation), can hinder the ability of the system to meet load and contribute to substantial additional costs

- Energy Northwest's nuclear projects are a sizeable debt burden

- Large debt funded capital program reduces financial flexibility and diminishes US Treasury line availability over the longer term

- Liquidity and financial metrics continue to be pressured by low wholesale prices and volatile hydrology.

- Development of wind energy is likely to exert downward pressure on power prices in the region and has created transmission and load balancing issues

Please see Moody's March 2012 credit analysis report on BPA for further detailed analysis.

Outlook

The stable outlook reflects BPA's unconditional and absolute obligation to pay. BPA's stable outlook incorporates BPA's baseline expectations according to its FY 2012-13 rate case and BPA's near-term ability to withstand difficult market price and hydrology conditions.

What could move the rating - DOWN

BPA's rating could be negatively pressured if BPA's internal liquidity drops below 30 days cash on hand on a sustained basis, if US government support diminishes, federal constraints are placed on BPA or if the US government ratings are lowered below Aa1. 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

BPA's rating could improve over the long term 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, 2012 Operating Year at median water conditions: 10,813 average megawatts

Non-Federal Debt Service Coverage Ratio, 2011 (reported): 2.5 times

Non-Federal Debt Service Coverage Ratio, 2011 (Moody's): 2.2 times

Total Debt Service Coverage Ratio, 2011 (Moody's): 1.0 times

Available BPA Reserves, 2011 (encumbered and unencumbered): $ 1.01 billion

Total Reserves Available for Risk, 2011: $747 million

BPA Payment to U.S. Treasury, 2011: $748 million

Authorized Line of Credit With U.S. Treasury, 2011: $7.7 billion ($2.94 billion drawn)

BPA Full-Requirement Power Rate, 2012: $29/MWh

Columbia Generating Station Nameplate Capacity: 1,130 MW

Non-federal debt, FY 2011: $6.3 billion

Federal debt, FY 2010: $7.3 billion

Public Power Rating Methodology Factors-Bonneville Power Administration

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): (A)

5. Financial Strength:

Sub factor a) Adjusted Days Liquidity on Hand (10% weight): (168) (Aa)

Sub factor b) Debt Ratio (10% weight): (60% [non-federal only]-A) / (130% [total debt]-Ba)

Sub factor c) Adjusted Debt Service Coverage (10% weight): (2.1x [non-federal only]-Aa) / (0.9x [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]

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The last rating action was on March 15, 2012 when Moody's affirmed BPA and BPA related ratings at Aa1 with a stable outlook.

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.

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