S&P Global
Ratings

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

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Credit Profile		
US$236.775 mil proj 1 elec rev rfdg bnds ser 2017-A due 07/01/2028		
Long Term Rating	AA-/Stable	New
US$191.200 mil Columbia generating station elec rev and rfdg bnds ser 2017-A due 07/01/2034		
Long Term Rating	AA-/Stable	New
US$156.975 mil proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2017-A due 07/01/2028		
Long Term Rating	AA-/Stable	New
US$3.790 mil Columbia generating station elec rev and rfdg bnds (Taxable) ser 2017-B due 07/01/2034		
Long Term Rating	AA-/Stable	New
US$1.660 mil proj 1 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B due 07/01/2028		
Long Term Rating	AA-/Stable	New
US$1.645 mil proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) (Taxable) ser 2017-B due 07/01/2028		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings has assigned its 'AA-' rating to six series of $592 million 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 the following series:

- Project 1 electric revenue refunding bonds, series 2017-A;
- Columbia Generating Station (CGS) electric revenue and refunding bonds, series 2017-A;
- Project 3 electric revenue refunding bonds, series 2017-A;
- Project 1 electric revenue refunding bonds, series 2017-B (taxable);
- CGS electric revenue and refunding bonds, series 2017-B taxable) ; and
- Project 3 electric revenue refunding bonds, series 2017-B (taxable).

At the same time, S&P Global Ratings affirmed its 'AA-' ratings on existing parity and prior-lien ENW debt and additional nonfederal obligations that BPA pays as an operating expense of its electric system. The outlook is stable. S&P Global Ratings also affirmed its 'aa-' stand-alone credit profile on BPA.

Although the series project 3 bonds are subordinate ENW obligations, the utility covenanted to close its prior liens. The $29 million of project 3 prior-lien debt represents less than 1% of the $8 billion of nonfederal debt that BPA supports. In light of the modest amount of project 3 bonds, we do not view the subordinate-lien position as an additional exposure. ENW has retired its prior-lien CGS and project 1 debt.

CGS is ENW's only completed and operating nuclear unit. The incomplete nuclear units 1 and 3 have $1.9 billion of debt and the operating CGS nuclear unit has $3.4 billion.

ENW and BPA will use the bonds' proceeds to refund portions of ENW's existing debt and finance a portion of CGS's capital improvement needs. Bonneville has been using ENW refunding transactions to capture debt service savings and to defer portions of its ENW debt to free up funds to retire portions of higher interest federal appropriation debt more quickly and preserve Treasury borrowing capacity, which is subject to a cap.

At fiscal year-end 2016 (Sept. 30), Bonneville had $15.6 billion of debt obligations, consisting of $2.9 billion of federal appropriations, $4.8 billion of bonds issued to the U.S. Treasury, and $8.0 billion of nonfederal debt that the utility supports. BPA's financial statements include $2.1 billion of lease obligations and $285 million of customer power prepayments in its nonfederal debt. It pays nonfederal debt from net revenues before it services federal Treasury debt and appropriations.

Accelerating portions of high interest rate federal appropriations debt by using the cash flow that re-amortizing ENW debt through refunding transactions frees up should reduce interest expense. As federal debt is retired, funds that would have been applied to its principal will then be available to further accelerate portions of BPA's Treasury debt, which is critical to funding Bonneville's capital program. The utility operates under a congressionally imposed $7.7 billion ceiling on its Treasury borrowings. Although as of fiscal year-end 2016, $4.8 billion of Treasury bonds were outstanding, the utility's reports that capital spending needs could exhaust the remaining Treasury borrowing capacity by as soon as 2019. Debt extensions have reduced federal appropriations debt to $2.9 billion in 2016 from $4.3 billion in 2013 and Treasury debt rose modestly to $4.8 billion in 2016 up from $3.9 billion in 2013.

BPA expects that managing Treasury debt balances with the savings from ENW debt deferrals will alleviate its borrowing constraints and add years to its Treasury borrowing capacity. Bonneville labels its use of ENW debt extensions to reduce appropriations and Treasury debt, "Regional Cooperation Debt Refinancings." To further these plans, it expects more than $2 billion of additional transactions to extend debt beyond the approximately $1.2 billion of debt extensions since 2014.

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 assess Bonneville's stand-alone credit profile to be 'aa-' and believe there is a moderately high likelihood that the U.S. government would provide extraordinary support to it in financial distress. We base the latter 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 federal government provides ongoing support to BPA through loans and credit lines.
- Congress increased the agency's federal borrowing authority in 2009 to $7.70 billion, up $3.25 billion (or 73%). However, Bonneville projects that, by 2019, it could consume the headroom between its $4.8 billion of U.S. Treasury borrowings and $7.7 billion as it proceeds with capital spending.
- Nonfederal bondholders benefit from 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.
- The utility's financial performance includes a track record of at least 1.8x nonfederal accrual debt service coverage (DSC) in fiscal years 2010-2016, tempered by accrual coverage of federal and nonfederal obligations of 1.0x in 2011 and 2013, 0.9x in 2012, and 0.7x in 2016. Coverage was 1.2x in 2014 and 1.3x in 2015. The years with low coverage reflect the influence of biennial rate cases without intraperiod adjustments and the utility's operational exposure to variable hydrology conditions that affect volumes of surplus power available for sale in competitive markets, prevailing market power prices when BPA makes surplus sales, and variations in renewable energy resources' output that affect market prices. In addition, the accelerated payment of appropriations debt heavily influenced 2016's DSC. Bonneville paid $1.04 billion of appropriations debt in 2016, compared with an average of less than $200 million in the prior five years.
- BPA exhibits robust liquidity, which tempers the sometimes substantial impacts of variable hydrology conditions on financial performance and mitigates credit risks inherent in biennial rate cases. For example, in 2016, unrestricted cash and investments dropped to $853 million from $1.3 billion in the preceding year, but remained at a level that, at four months' operating expenses, we consider strong.
- An exceptionally broad and diverse service territory supports the revenue stream.
- The strong, efficient, and economical operations of the federal hydroelectric Columbia River Power System translates into favorable wholesale power prices that foster strong demand for its output and ENW's nuclear production.
- Customers demonstrated their commitment to the agency's system by entering contracts with BPA that extend from 2008-2028. However, the contracts do not establish rates and the utility continues to rely on biennial rate proceedings.
- Tiered rates underlying the customer contracts help shield BPA from market volatility by assigning to customers the costs of their energy needs that exceed their allotments of capacity from the federal hydroelectric projects and CGS.

S&P Global Ratings also incorporates the following factors 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. The liquidity cushion is vulnerable to hydrology conditions, power market volatility, and accelerated debt reduction, as the nearly $500 million decline in 2016's unrestricted cash and investments relative to 2015 illustrated. Biennial rate proceedings and the high threshold for triggering the utility's cost recovery adjustment mechanism limit the flexibility to respond to pressures on liquidity and DSC.
- Highly politicized and protracted biennial rate proceedings can delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility. Nevertheless, the utility established electric rates for its municipal and electric cooperative customers for fiscals 2016-2017 that at $34 per megawatt-hour are 7.1% above

its 2014-2015 rates and transmission rates that were 4.4% higher. Rates during 2014-2015 that were 9% higher than the rates that went into effect in October 2013 and transmission rates were 11% higher. In addition, BPA is exploring rate increases for the 2018-2019 rate period.

- Bonneville and ENW project substantial capital needs that could add to both organizations' debt and consume BPA's Treasury borrowing authority. The utility reports it is exploring nonfederal 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 about $2.15 billion of capacity based on $4.8 billion of existing Treasury debt.
- The success of the Regional Cooperation debt refinancings and the ability to extend the tenor of BPA's capacity to borrow from Treasury hinge on the economics of refinancing opportunities for reamortizing nonfederal debt, the willingness of ENW to serve as a conduit issuer, and the potential for accelerating portions of Bonneville's federal appropriations and Treasury debt.
- The Regional Cooperation debt refinancings will strengthen nonfederal DSC in the near term, but will likely erode DSC in later years because BPA and ENW are deferring nonfederal debt service.

Outlook

The stable outlook reflects our view that Bonneville's stand-alone credit profile can withstand a further downgrade on the U.S. Also, plans to increase rates for the 2018-2019 period could help support DSC and liquidity. At the same time, ENW's willingness to serve as a conduit to capital markets remains important to managing Treasury borrowing limits.

Upside scenario

We do not expect to raise the ratings in the next two years because of the size of the BPA and ENW capital programs and our view that improvements in nonfederal debt service coverage ratios reflect the deferral of debt amortization to later years to address the Treasury's cap on BPA's borrowings

Downside scenario

If, during our two-year outlook horizon, Bonneville's sound liquidity cushion erodes further whether due to hydrology conditions, capital needs, weak market for its surplus power, or debt acceleration that saps its liquidity, we could lower the stand-alone credit profile. Also, if BPA adds significant nonfederal leverage obligations because of its statutory debt ceiling, it could lead to negative implications for the stand-alone credit profile and the 'AA-' rating.

Bonneville's Nonfederal Debt Obligations

BPA's nonfederal rated obligations include:

- $5.3 billion of ENW revenue and refunding bonds: $3.4 billion relates to the operating CGS and the balance is for the incomplete units 1 and 3;
- $78.9 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; and
- $12.8 million of Northern Wasco Public Utility District, Ore. (McNary Dam Project) bonds.

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 (88% 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. Power sales accounted for 73% of 2016's operating revenues, compared to transmission's 27%.

ENW debt financed two partially completed nuclear reactors and one completed reactor, CGS, a 1,157 megawatt reactor. The nuclear assets' debt is the leading component of nonfederal obligations.

Capital Spending Forecast

Bonneville projects about $4.5 billion of 2017-2021 capital projects. In descending order, transmission projects, hydroelectric asset upkeep, facilities, IT, security, 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.

ENW projects about $537 million of 2017-2021 capital projects.

Ratings Detail (As Of March 31, 2017)		
Energy Northwest, Washington		
Bonneville Pwr Admin, Oregon		
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 WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Energy Northwest WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest WHLELC		

Ratings Detail (As Of March 31, 2017) (cont.)		
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) Columbia generating station elec rev bnds		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Columbia Generating Station elec rev & rfdg bnds (Bonneville Pwr Admin)		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) Sub Lien		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)		
Long Term Rating	AA-/Stable	Affirmed
Energy Northwest (Bonneville Pwr Admin) (1,Columbia,3)		
Long Term Rating	AA-/Stable	Affirmed
Bonneville Pwr Admin elec rev rfdg (Colu)		
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
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

Many issues are enhanced by bond insurance.