

**UNITED STATES OF AMERICA**  
**U.S. DEPARTMENT OF ENERGY**  
**BEFORE THE**  
**BONNEVILLE POWER ADMINISTRATION**

Fiscal Year (FY) 2016-2017 Proposed  
Power and Transmission Rate  
Adjustments

BPA Docket No. BP-16

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**Attachment 1**  
**To the Direct Testimony of POWEREX CORP.**

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WITNESS: Carol C. Opatrny

February 4, 2015

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# EXHIBIT 1

**Request ID: PX-BPA-32**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E- BPA-15  Page(s): 11 Line(s): 1-9	How many games out of the 3200 games can fail and still meet the 95% TPP for BP-16?	Response Filed: 1/22/15  No more than 5% of 3,200, which is 160 games. For technical questions about this response, please contact Byrne Lovell by phone 503-230-3930 and/or email <a href="mailto:belovell@bpa.gov">belovell@bpa.gov</a> or Marcus Harris by phone 503-230-5931 and/or email <a href="mailto:maharris@bpa.gov">maharris@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a>

## EXHIBIT 2

**Request ID: PX-BPA-28**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-15  Page(s): 10 Line(s): 17-24	Why did Bonneville re-evaluate the need for within-year liquidity for the BP-16 rate period?	Response Filed: 1/21/15  The determination of the Transmission-related need for within-year liquidity had not been updated since 2002 whereas the determination of the amount of within-year liquidity BPA needs to maintain for Power-related issues had been updated in 2007. BPA decided it was prudent to reassess the Transmission-related within-year liquidity figure for the BP-16 rate period. For technical questions about this response, please contact Byrne Lovell by phone 503-230-3930 and/or email <a href="mailto:belovell@bpa.gov">belovell@bpa.gov</a> or Marcus Harris by phone 503-230-5931 and/or email <a href="mailto:maharris@bpa.gov">maharris@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a> .

## EXHIBIT 3

**Request ID: PX-BPA-26**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-15  Page(s): 10 Line(s): 18-24	Please provide the examination of the TS within-year liquidity usage for FY2010-2014 which determined "that the maximum within-year liquidity used by year for FY2010-2014 was \$96 million. . . ." Did the \$96 million need for within-year liquidity in 2010 result in a missed Treasury payment or other missed financial obligation(s)? If not, from what sources did Bonneville obtain the necessary liquidity above the \$20 million budgeted?	Response Filed: 1/20/15  1. The within-year liquidity analysis spreadsheet has 4 main tables used to perform the analysis of maximum within-year liquidity: "Transmission Historical Reserves for Risk", "Annual Cumulative Total Cash Flow", "Annual Cumulative Strategic Cash Flow," and "Annual Cumulative Within-Year Cash Flow". Table 1 "Transmission Historical Reserves for Risk" amounts are used to generate amounts in Table 2 "Annual Cumulative Total Cash Flow" for each month of each fiscal year. Amounts from Table 2 "Annual Cumulative Total Cash Flow" are used to generate amounts in Table 3 "Annual Cumulative Strategic Cash Flow". Amounts from Table 2 "Annual Cumulative Total Cash Flow" and amounts from Table 3 "Annual Cumulative Strategic Cash Flow" generate results in Table 4 "Annual Cumulative Within-Year Cash Flow". Cell F31 in Table 4 shows the results of the maximum within year liquidity use. 2. No. The \$96 million use of within-year liquidity in 2010 did not result in a missed Treasury or any other financial obligation because Transmission Services had \$516 million reserves available for risk at the start of FY 2010 available to cover this within-year liquidity need. 3. Transmission financial reserves available for risk were used to cover the \$96 million within-year liquidity need. For technical questions about this response, please contact Byrne Lovell by phone 503-230-3930 and/or email <a href="mailto:belovell@bpa.gov">belovell@bpa.gov</a> or Marcus Harris by phone 503-230-5931 and/or email <a href="mailto:maharris@bpa.gov">maharris@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a>  Files Submitted for this Response: PX-BPA-26_spreadsheet.xlsx [Attachment omitted from Exhibit]
			SUPPLEMENTAL RESPONSE Filed 1/30/15:  Excel 97-2003 (.xls) version of the previously uploaded spreadsheet is attached for compatibility reasons. No other changes made.  Files Submitted for this Response: PX-BPA-26_spreadsheet.xls [Attachment omitted from Exhibit]

## EXHIBIT 4

**Request ID: PX-BPA-21**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit:  BP-16-E- BPA-08A  Page(s): 103-04 Line(s): Chapter 10.6	If the TPP is at or above 95% for the BP-16 rate period (Chapter 10.8, page 104) without the within-year liquidity need (assumed to be \$100 million), how is it justified?	Response Filed: 1/21/15  BPA contacted Powerex for clarification and Powerex clarified its request as follows: BPA indicates that its revenues would result in a TPP of greater than 99.9 percent. Given this level of certainty in meeting its Treasury payments, please explain if BPA would achieve the 95 percent TPP without the \$100 million of within-year liquidity? If BPA would achieve the 95 percent TPP without the \$100 million of within-year liquidity, how does BPA justify maintaining an additional \$100 million of within-year liquidity? Further, does adding the \$100 million of within-year liquidity impact the yearly revenue requirement, and if so how is this allocated among the segments? BPA responds as follows: 1. The \$100 million within-year liquidity figure is a need for liquidity, not a source of liquidity. Within-year liquidity is needed for dealing with possible temporary shortages of cash within a year. TPP measures the adequacy of BPA's liquidity only at the end of a fiscal year. Needing to maintain \$100 million of within-year liquidity makes it harder, not easier to meet the TPP standard. Thus, BPA would still have met the 95% TPP standard if BPA maintained less than \$100 million of liquidity for within-year needs. 2. BPA is not maintaining additional within-year liquidity. In addition to the year-to-year liquidity needed to achieve a 95% TPP, the needed amount of which varies from rate case to rate case based on starting reserves and forecast cash flows from proposed rates, BPA needs to maintain \$100 million of liquidity for within-year needs. Reserves available for risk attributed to Transmission are sufficient to meet both of those needs. No additional liquidity needs to be provided. 3. Because no additional liquidity was required, there was no impact on the revenue requirement, and therefore no allocation among segments. For additional information, see BPA's response to PX-BPA-25-35. For technical questions about this response, please contact Byrne Lovell by phone 503-230-3930 and/or email <a href="mailto:belovell@bpa.gov">belovell@bpa.gov</a> or Marcus Harris by phone 503-230-5931 and/or email <a href="mailto:maharris@bpa.gov">maharris@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a> .

# EXHIBIT 5

**Request ID: PX-BPA-27**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-15  Page(s): 10 Line(s): 9-14	What would be the impact on the TPP of assuming \$20 million for within-year liquidity? If staff has not analyzed the impact of this assumption, did staff perform any sensitivities regarding this assumption, and if yes, please provide the results of that analysis or identify, where the results of that analysis are included in the BP-16 documentation.	Response Filed: 1/20/15  BPA did not perform this sensitivity analysis. BPA is not required to perform new analysis in response to data requests. BPA's Rules of Procedure Governing Rate Hearings § 1010.8(b), 51 Fed. Reg. 7,611 (1986). Powerex could perform this analysis by opening TRAM and the interest rate file. Go to sheet "TPP Calculation", cell H28, and change from \$100,000 to \$20,000. Run TRAM and observe the results. See response to PS-BPA-03 for the two files needed to run TRAM and response to PS-BPA-25-49 for instructions on how to run TRAM. For technical questions about this response, please contact Byrne Lovell by phone 503-230-3930 and/or email <a href="mailto:belovell@bpa.gov">belovell@bpa.gov</a> or Marcus Harris by phone 503-230-5931 and/or email <a href="mailto:maharris@bpa.gov">maharris@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a>

# EXHIBIT 6

**Request ID: PX-BPA-35**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit:  BP-16-E- BPA-04  Page(s): 4; 68 Line(s): 1-3; 22-25	Please explain why Bonneville does not set aside PS Reserves For Risk for meeting within-year liquidity needs.	Response Filed: 1/21/15  Files Submitted for this Response: PX-BPA-35.doc

## DATA RESPONSE

### BONNEVILLE POWER ADMINISTRATION 2016 RATE ADJUSTMENT PROCEEDING

#### DATA REQUEST NUMBER: PX-BPA-35

#### DIRECTED TO:

Bonneville Power Administration

#### REQUESTOR'S NAME:

Nafees Uddin - Powerex Corp.

EXHIBIT: Power Risk and Market Price Study, BP-16-E-BPA-04

PAGE(S): 4; 68

LINE(S): 1-3; 22-25

#### DATA REQUEST:

Please explain why Bonneville does not set aside PS Reserves For Risk for meeting within-year liquidity needs.

For technical questions about this request please contact Carol C. Opatrny. Phone: (360.666.8510) Email: (ccopat@e-z.net)

For legal questions about this request please contact Tyler S. Johnson. Phone: (206.204.6211) Email: ([tyler.johnson@bgllp.com](mailto:tyler.johnson@bgllp.com))

#### DATA RESPONSE:

BPA sets aside \$320 million of liquidity for meeting within-year liquidity needs associated with Power in the PS risk analysis, though not liquidity provided by PS Reserves for Risk. BPA has elected to set aside liquidity from the Treasury Facility, leaving the balance of the Treasury Facility (\$430 million) and the total amount of Power reserves available for risk at the beginning of FY 15 (\$273 million; BP-16-E-BPA-04, p. 77, l. 23) to support TPP. This left \$273 million plus \$430 million = \$703 million available to support TPP.

BPA could have set aside for within-year liquidity purposes the \$273 million of starting 2015 reserves. This would not have fully met the within-year liquidity need of \$320 million, so \$47 million of the Treasury Facility would have been allocated, or set aside, for within-year liquidity. This would have left the balance of the Treasury Facility, \$703 million, available to support TPP. This is the same amount of liquidity supporting TPP in BPA's Initial Proposal. PS TPP would have been exactly the same using this approach.

Additional explanation of within-year and year-to-year liquidity:

For both the TS and PS TPP analyses, there are two needs for liquidity. One is liquidity that is needed within the year. The TPP analysis is an annual assessment, and does not model events within a year, only results at the end of each fiscal year. The determination of how much

## DATA RESPONSE

### BONNEVILLE POWER ADMINISTRATION 2016 RATE ADJUSTMENT PROCEEDING

liquidity BPA needs to maintain at the end of a year to respond to within-year issues for the subsequent year is made outside the TPP modeling. In BP-16, BPA has determined that it needs \$320 million of within-year liquidity for Power needs, and \$100 million of within-year liquidity for Transmission needs. The second need for liquidity is to meet the TPP standard when accounting for the year-to-year risks modeled in the risk analysis. If TPP is less than 95% with the liquidity available after setting aside the amount needed for within-year issues, PNRR is added to the revenue requirement to generate additional revenue and therefore additional cash (or, in the case of Power rates, the Cost Recovery Adjustment Clause, or CRAC, is strengthened). This additional cash flow makes it more likely that BPA will have sufficient financial reserves to make its Treasury payments, and thus TPP is higher.

In BP-16, financial reserves available for risk attributed to Transmission are sufficient to provide the needed within-year liquidity and the needed year-to-year liquidity to meet the TPP standard. In BP-16, the liquidity available for Power issues includes financial reserves available for risk attributed to Power and the \$750 million Treasury Facility.

Because BPA's current TPP analysis does not take into account within-year factors, it does not deal with within-year liquidity needs or sources of within-year liquidity. When we calculate TPP, we set aside (that is, omit from the TPP analysis) the amount of liquidity that has been determined to be needed for within-year issues. In the Transmission risk analysis, we set aside (omitted) \$100 million to deal with the within-year needs for liquidity, and calculated TPP with the remaining liquidity, all of which came from the balance of the financial reserves available for risk (the balance being the beginning FY15 amount less \$100 million). This amount was sufficient to produce a Transmission TPP above BPA's standard of 95%. In the Power risk analysis, we set aside (omitted) \$320 million of liquidity from the Treasury Facility. The remaining liquidity, \$430 million from the Treasury Facility and the beginning FY15 reserves available for risk, was sufficient to produce a Power TPP above BPA's standard of 95%.

Because the liquidity available was sufficient to meet BPA's TPP standard for both Power and Transmission rates, neither Power rates nor Transmission rates were increased to provide stronger risk mitigation. Conversely, that means that having more liquidity available would not have decreased Power or Transmission rates.

Note that the above discussion describes analyses for the purposes of setting rates. The Administrator is free to make use of the Treasury Facility to help him meet financial obligations associated with either business line.

The Treasury Facility was first made available to support Power TPP during the WP-10 rate proceeding. See Risk Analysis and Mitigation Study, WP-10-FS-BPA-04, pp. 15 and 54; Bliven and Lefler, WP-10-E-BPA-10, p. 9. It was made available to support Power TPP and not to support Transmission TPP because Transmission TPP was sufficient without support from the Treasury Facility, and Power TPP was insufficient without support from the Treasury Facility. Support from the Treasury Facility thus enabled a reduction in Power rates, and could not have enabled a reduction in Transmission rates.

## **DATA RESPONSE**

### **BONNEVILLE POWER ADMINISTRATION 2016 RATE ADJUSTMENT PROCEEDING**

Allocation of the Treasury Facility to support Power TPP continued in the BP-12 and BP-14 rate cases. See Lovell *et al.*, BP-12-E-BPA-15, pp. 46-48; Power Risk and Market Price Study, BP-12-FS-BPA-04, p. 69; Lovell *et al.*, BP-14-E-BPA-15, pp. 24 and 27; and Power Risk and Market Price Study, BP-14-FS-BPA-04, p. 71.

# EXHIBIT 7

# MOODY'S

## INVESTORS SERVICE

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

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Global Credit Research - 24 Nov 2014

#### Approximately \$200 million of debt affected

BONNEVILLE POWER ADMINISTRATION, OR  
Electric Generation  
OR

#### Moody's Rating

ISSUE		RATING
Transmission Facilities Revenue Bonds (Bonneville Corporation Project No.2), Series 2014 (Federally Taxable)		Aa1
<b>Sale Amount</b>	\$200,000,000	
<b>Expected Sale Date</b>	12/01/14	
<b>Rating Description</b>	Revenue: Government Enterprise	

#### Moody's Outlook STA

#### Opinion

NEW YORK, November 24, 2014 --Moody's Investors Service has assigned a Aa1 rating to Morrow (Port of) OR's (Port of Morrow, not rated) \$200 million of Transmission Facilities Revenue Bonds (Bonneville Cooperation Project No. 2) Series 2014 (Federally Taxable). The lease bonds are non-recourse to the Port of Morrow. The rating outlook is stable.

#### Summary Rating Rationale

The Aa1 rating on Port of Morrow's transmission bonds reflects Bonneville Power Administration (OR)'s (BPA, Aa1/stable) unconditional lease payment obligation directly to the bond trustee, BPA's long history of meeting its contractual obligations, and BPA's Aa1 issuer rating.

BPA's Aa1 issuer rating reflects its 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 (\$3.46 billion available as of September 30, 2014) with the US Treasury and the legal ability to defer its annual US Treasury debt repayment if necessary. BPA's importance to the US Northwest region and its role as a US government agency represent drivers of implicit support.

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, historical trend of declining liquidity, and low consolidated financial metrics that range in the 'Baa' to 'A' category depending on the metric. 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.

For FY 2014, BPA's financial performance substantially benefited from above average regional hydrology and higher wholesale power prices that contributed to stronger liquidity and debt service coverage ratios (DSCR) relative to rate case expectations. BPA's liquidity increased for the first time since 2008 to 136 days cash on hand in FY 2014 compared to 117 days cash on hand in FY 2013 and total DSCR improved to 1.2 times compared to 1.06 times in FY 2013. We view the stronger than expected performance as credit positive albeit not sustainable since hydrology and wholesale power prices are volatile.

Separately, the debt extension at Energy Northwest's nuclear projects was the most significant contributor to non-federal DSCR increasing to 3.7 times for FY 2014 compared to 1.7 times in FY 2013. The higher DSCR now reflects mostly interest expense coverage and we continue to view the debt extension as a credit negative since it extends non-federal debt while accelerating the repayment of de-facto junior debt owed to the US Treasury. However, BPA's rating remains unaffected at this time given the uncertainties of BPA's long-term capital structure.

#### Outlook

The stable outlook on the Port of Morrow transmission bonds reflect BPA's stable outlook. 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.

#### WHAT COULD MAKE THE RATING GO UP

Ratings on the Port of Morrow transmission bonds could be upgraded if BPA is upgraded. BPA's rating could improve over the long term if BPA is able to substantially mitigate hydrology and wholesale price risk and if BPA implements policies to ensure strong internal reserves for risk resulting in at least 250 days cash on hand on a sustainable basis.

#### WHAT COULD MAKE THE RATING GO DOWN

Ratings on the Port of Morrow transmission bonds could be downgraded if BPA is downgraded or if the underlying lease agreement is violated. 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's rating is lowered below Aa1.

#### 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 own and 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 around 75% of BPA's revenues in a typical year. 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.

**USE OF PROCEEDS:** Bond proceeds will be used to repay bank loans used to fund construction of electric transmission facilities and related equipment and pay for transaction costs.

**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 maturities ranging from 2024 through 2027. 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.

**INTEREST RATE DERIVATIVES:** BPA's non-bond financed lease debt has approximately \$1.2 billion of notional interest rate swaps. We understand there are no collateral posting requirements under any conditions.

For description of the BPA's key rating drivers, please see Moody's new issue report dated March 27, 2014.

#### KEY STATISTICS

Aggregate BPA Power Capacity, 2015 Operating Year (median water conditions): 9,949 average megawatts

Non-Federal Debt Service Coverage Ratio, 2014 (reported): 4.4 times

Non-Federal Debt Service Coverage Ratio, 2014 (Moody's): 3.7 times

Total Debt Service Coverage Ratio, 2014 (Moody's): 1.2 times

Days cash on hand, 2014 (Moody's): 136

Available BPA Reserves, 2014 (encumbered and unencumbered): \$ 1.22 billion

Total Reserves Available for Risk, 2014: \$784 million

BPA Payment to U.S. Treasury, 2014: \$991 million

Authorized Line of Credit With U.S. Treasury, 2014: \$7.7 billion (\$3.46 billion available)

BPA Average Tier 1 Rate, 2015: \$31.50/MWh

Non-federal debt, FY 2014: \$7.24 billion

Federal debt, FY 2014: \$8.33 billion

#### OTHER CONSIDERATIONS

Moody's evaluates BPA under the US Public Power Electric Utilities with Generation Ownership Exposure methodology, and, as depicted below, the grid indicated rating is Aa2, which is lower than its Aa1 assigned rating. The implicit and explicit US Government support features represents the key drivers between BPA's Aa1 rating and the Aa2 indicated rating under the US Public Power with Generation Ownership methodology.

The grid is a reference tool that can be used to approximate credit profiles for public power with generation ownership in most cases. However, the grid is a summary that does not include every rating consideration. Please see US Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

#### 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): (129 3-year average) (A)

Sub factor b) Debt Ratio (10% weight): (96% 3-year average) (Baa)

Sub factor c) Adjusted Debt Service Coverage (10% weight): (1.13x 3-year average) (Baa)

Grid Indicated Rating: A2

Notching:

Lack of debt service reserve: -0.5

Other: +3 (regional importance, US Treasury borrowing line, payment deferral ability)

Scorecard Indicated Rating: Aa2

#### RATING METHODOLOGY

The principal methodology used in this rating was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this

methodology.

## REGULATORY DISCLOSURES

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INVESTORS SERVICE

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## **FITCH RATES PORT OF MORROW (OR) TRANSMISSION FACILITIES REV BONDS 'AA'; OUTLOOK STABLE**

Fitch Ratings-Austin-24 November 2014: Fitch Ratings assigns 'AA' ratings to the Port of Morrow, OR Transmission Facilities Revenue Bonds (Bonneville Cooperation Project 2), series 2014.

The bonds are scheduled to price on Dec. 11, 2014, via negotiation. Bond proceeds will finance the acquisition and completion costs of certain transmission facilities that will be owned by the Port of Morrow and leased to the Bonneville Power Administration (Bonneville) according to a lease-purchase agreement.

Fitch also affirms the following outstanding ratings on parity debt issued by Port of Morrow, the Lewis County Public Utility District, WA, and Energy Northwest (ENW), WA and secured by payments from Bonneville:

- \$931 million ENW Project 1 revenue bonds at 'AA';
- \$3.3 billion ENW Columbia Generating Station revenue bonds at 'AA';
- \$1.14 million ENW Project 3 revenue bonds at 'AA';
- \$84.7 million Port of Morrow transmission facilities revenue bonds, series 2012 (taxable) at 'AA';
- \$85 million Lewis County Public Utility District No. 1 Cowlitz Falls hydroelectric project revenue refunding bonds, series 2013 at 'AA'.

Fitch also affirms the rating on Bonneville's implied non-federal revenue obligations at 'AA'.

The Rating Outlook for all bonds is Stable.

### **SECURITY**

The Port of Morrow bonds are secured by a security interest in the lease payments to the Port of Morrow from Bonneville, which are an absolute and unconditional payment obligation.

Bonneville's payment obligation supporting the bonds is on parity with Bonneville's payment obligation on ENW's outstanding \$5.36 billion in electric revenue bonds, as well as the outstanding Port of Morrow transmission revenue bonds, series 2012 and Lewis Public Utility District No. 1 Cowlitz Falls hydro bonds.

Bonneville's payments are made as an operating expense from the Bonneville Fund. These payments are paid prior to Bonneville's payments on borrowings from the U.S. Treasury (\$4.2 billion) and federal appropriations debt (\$4.1 billion).

### **KEY RATING DRIVERS**

**BONNEVILLE'S OBLIGATION SECURES BONDS:** The rating on the Port of Morrow bonds reflects the credit quality of Bonneville and its absolute and unconditional obligation to make lease payments to pay debt service.

**COMPETITIVE REGIONAL SUPPLIER:** Bonneville provides wholesale electricity to a population of more than 12 million in the Pacific Northwest region through a competitive resource portfolio consisting primarily of low-cost hydropower.

**LOW-RISK POWER SALES CONTRACTS:** Bonneville sells power through long-term, take-or-pay contracts that recover cost of service from 125 preference customers. The contracts all expire in 2028

and limit Bonneville's financial exposure to member load increases and lower-than-expected output from the federal hydroelectric system.

**TWO-YEAR RATE SETTING:** Bonneville sets rates based on a two-year rate cycle, with mid-period cost adjustments allowed if certain financial thresholds are triggered. Increases occurred in Bonneville's tier 1 power rate (9%) and transmission rate (11%) in fiscal 2014 and provided improved financial performance.

**RELIANCE ON SURPLUS SALES:** 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 in recent years.

**DECLINING CASH RESERVES:** Cash reserves have trended downward since 2008 with the exception of an increase in fiscal 2014. Concerns regarding Bonneville's decision to operate with lower reserves are somewhat mitigated by its lower risk profile, interim rate-setting options and access to a \$750 million federal line of credit with the U.S. Treasury Department.

**LIMITED CAPITAL ACCESS:** Bonneville's access to capital is limited as it cannot issue debt on its own and has a \$7.7 billion ceiling on borrowing from the U.S. Treasury. However, Fitch expects that access to alternative forms of financing will be sufficient to meet Bonneville's significant capital needs.

## RATING SENSITIVITIES

**FURTHER REVENUE AND RESERVE DECLINES:** A further trend of net secondary revenues lower than expected and declining cash reserves could pressure the ratings.

## CREDIT PROFILE

### PORT OF MORROW

The Port of Morrow has the authority to own and issue bonds to fund transmission assets throughout the region. This right was validated by a court opinion sought by the Port in March 2012. According to the terms of a lease agreement between the Port of Morrow and Bonneville, Bonneville will make unconditional lease payments directly to the trustee (the Port has assigned the lease revenues to the trustee) that are equal to debt service on the bonds. The lease agreement terminates in 2027 or only once all the bonds are repaid. Bonneville retains all operational control of the transmission assets.

## BONNEVILLE POWER ADMINISTRATION

Bonneville is the largest of the regional federal power marketing agencies within the Department of Energy. Bonneville was created by Congress in 1937 to market electric power from the Bonneville Dam in the Pacific Northwest region. Bonneville accounts for approximately 33% of the electricity consumed and 75% of the transmission infrastructure in the region.

## BONNEVILLE RATING NOT BASED ON DIRECT FEDERAL SUPPORT

Fitch's ratings on Bonneville's implied revenue obligations and the related ENW, Port of Morrow, and Lewis County Public Utility District (PUD) No. 1 bonds reflect the credit quality of the administration as a self-supporting entity. Bonneville's subordinate obligations to the U.S. Treasury offer a layer of structural support, in that Bonneville may defer payment to the Treasury, if necessary, which provides flexibility to the payment obligations ahead of Treasury. A linkage with the federal government exists in the form of governance by the DOE, 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.

## RELIANCE ON NET SECONDARY REVENUES

Bonneville has faced financial pressure for the previous five years resulting from low power-market prices for its secondary sales. Fiscal 2014 was the first year that net revenues from secondary sales were in excess of the forecast.

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 for preference customers are established using extensive modeling of potential hydrological conditions but assume some level of net secondary revenues based on average water conditions and forecast market prices. These revenues have been lower than projected due to below-average water conditions and low market prices. Fitch views the use of average water conditions for financial planning as an optimistic assumption given below-average water conditions in eight of the past 10 years.

Rate setting in fiscal 2014 assumed reduced net secondary sales of approximately \$300 million. Bonneville ended the year with \$318 million in net secondary sales due to a gradual lowering of assumed revenues over the past few years and water conditions that were slightly above average, which produced more kilowatt hours to sell into the market.

## FINANCIAL FLEXIBILITY REMAINS

The stronger performance in fiscal 2014 led to improved cash reserves for the first time in recent years. Combined reserves for risk for both business lines increased to \$784 million from \$641 million at the end of fiscal 2013. The \$784 million represents 136 days operating cash, excluding expenditures paid to Energy Northwest on the nonfederal debt. When the \$750 million federal line of credit is included the days operating cash increases to 267 days operating cash. However, there is a high degree of variability and future reserves will depend on hydrological flows in the region, timing of those flows and market prices. Fitch believes that the reduced reliance on net secondary revenues in rate setting should provide greater stability to Bonneville's reserves. Additionally, Bonneville's risk profile has also lessened over this time period with the new power contracts and the flexibility to adjust rates through cost adjusters.

For more information, see the Fitch report, 'Energy Northwest, WA, and Bonneville Power Administration, OR' dated April 7, 2014, at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria and U.S. Public Power Rating Criteria, this action was informed by information from CreditScope.

Applicable Criteria and Related Research:

--'U.S. Public Power Rating Criteria' (March 18, 2014);

--'2014 Outlook: U.S. Public Power and Electric Cooperative Sector' (Dec. 12, 2013);

--'U.S. Public Power Peer Study' (June 12, 2014).

Applicable Criteria and Related Research:

U.S. Public Power Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=740841](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841)

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

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=725447](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725447)

U.S. Public Power Peer Study -- June 2014

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=749789](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749789)

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

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

## Credit Profile

US\$199.985 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 1) ser 2014-C due 07/01/2028

*Long Term Rating* AA-/Stable New

US\$72.35 mil elec rev rfdg bnds (Bonneville Pwr Admin) (Project 3) ser 2014-C due 07/01/2028

*Long Term Rating* AA-/Stable New

### **Energy Northwest, Washington**

Bonneville Pwr Admin, Oregon

Energy Northwest (Bonneville Pwr Admin) (Nuclear Proj 1,2,3)

*Long Term Rating* AA-/Stable Affirmed

## Rationale

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

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

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

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

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

Accelerating portions of the federal appropriations debt should reduce interest expense. Also, once retired, funds that would have been applied to its principal will then be available to accelerate portions of BPA's Treasury debt, which is

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

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

Although the series 2014-C bonds are subordinate ENW obligations, the utility covenanted to close the prior liens. The \$41 million of project 1 senior debt and the \$136.9 million of project 3 senior debt represent about 2.5% of the \$7.2 billion of nonfederal debt that BPA supports. The incomplete nuclear units have \$2.1 billion of debt. ENW has retired its prior-lien Columbia Generating Station (CGS) electric revenue bonds and \$3.3 billion of subordinate-lien debt is outstanding. CGS is ENW's only completed and operating nuclear unit.

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

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

The GRE rating reflects our view of:

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

operates key transmission resources.

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

- The ongoing support the federal government provides to BPA through loans and credit lines;
- Congress's 2009 increase in the agency's federal borrowing authority to \$7.70 billion, up \$3.25 billion (or 73%). However, in its 2013 annual report Bonneville projected that by 2017, it could consume the headroom between its \$3.9 billion of U.S. Treasury borrowings and \$7.7 billion as it proceeds with capital spending;
- The legislative mechanism that allows BPA to pay nonfederal debt as an operating expense ahead of federal debt service and to defer repaying federal obligations if it lacks the financial resources to meet all of its operating and debt obligations;
- A track record of at least 1.8x nonfederal debt service coverage in fiscal years 2009-2013 (year ended Sept. 30), tempered by accrual coverage of total obligations of 1.0x in 2011 and 2013, 0.8x in 2009 and 2010, and 0.9x in 2012;
- Robust liquidity, which tempers the sometimes substantial impacts of variable hydrology conditions on financial performance and mitigates credit risks inherent in biennial rate cases;
- The utility's exceptionally broad and diverse service territory;
- The strong, efficient, and economical operations of the federal hydroelectric Columbia River Power System, which foster strong demand for their output and ENW nuclear production;
- Customers who have contracts with BPA that extend from 2008-2028, which demonstrate the customer base's commitment to the agency's system. However, the contracts do not establish rates and the utility continues to rely on biennial rate proceedings; and
- Tiered rates that underlie the customer contracts and help shield BPA from market volatility by assigning to customers the costs of energy needs exceeding individual allotments of capacity from the federal hydroelectric projects and CGS.

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

- Financial performance hinges on hydrology conditions that can impair surplus power sales revenues and require replacement power purchases that add to expenses. Due to poor hydrology, accrual-basis debt service coverage of all debt was only 0.8x in 2009 and 2010, and 0.9x in 2012. BPA's cash from operations was \$268 million in 2009 and \$370 million in 2010, representing the lowest points in cash from operations since 2007's \$872 million. However, we believe robust liquidity provided a cushion that tempered the financial implications of weak hydrology.
- Highly politicized and protracted biennial rate proceedings can delay rate relief and constrain the benefits of autonomous ratemaking authority and financial flexibility. Nevertheless, municipal and cooperative customers' 2014-2015 electric rates are 9% higher than previous rates and transmission rates are 11% higher.
- Bonneville and ENW project substantial capital needs could add to both organizations' debt and consume BPA's Treasury borrowing authority. The utility reports it is exploring off-balance-sheet financing arrangements, including leases and energy prepayments by its customers to address expectations that it could soon exhaust its federal borrowing capacity.
- BPA's capital spending program is important to maintaining the integrity of its generation fleet and managing forced outage incidents.
- The \$7.7 billion federal debt limit includes \$750 million carved out as a credit line, which leaves slightly less than \$3 billion of capacity after existing borrowings.
- The success of the Regional Cooperation Debt Refinancings and the ability to extend the tenor of BPA's capacity to borrow from Treasury hinges on the ability to restructure nonfederal debt, the willingness of ENW to serve as a conduit issuer, and acceleration of portions of Bonneville's federal appropriations and Treasury debt.

## Outlook

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

## Bonneville's Nonfederal Debt Obligations

BPA's nonfederal rated obligations include:

- \$4.8 billion of ENW revenue and refunding bonds, \$3.0 billion relates to the operating CGS and the balance for the incomplete units 1 and 3;
- \$87.9 million of Public Utility District No. 1 of Lewis County, Wash., Cowlitz Falls Project bonds;
- \$119.6 million of Northwest Infrastructure Financing Corp. (Schultz-Wautoma project) bonds;
- \$17.0 million of Northern Wasco Public Utility District, Ore. (McNary Dam Project) bonds;
- \$3.0 million of conservation and renewable energy system bonds; and
- \$3.5 million of Tacoma, Wash., conservation system project bonds.

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

## Operations

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

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

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

obligations.

## Capital Spending Forecast

Bonneville projects nearly \$5 billion of 2014-2018 capital projects. In descending order, transmission projects, hydroelectric asset upkeep, energy efficiency projects, and fish and wildlife protection represent the largest segments of the capital program. We view investments in the hydroelectric assets as critical to cash flow, particularly because the generating assets have exhibited an above-average forced outage factor relative to the balance of the power industry. Power sales accounted for 75% of 2013's operating revenues, compared to transmission's 25%.

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

## Related Criteria And Research

### Related Criteria

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

### Ratings Detail (As Of July 30, 2014)

#### Conservation and Renewable Energy Sys, Washington

Bonneville Pwr Admin, Oregon

Conservation & Renewable Energy Sys (Bonneville Pwr Admin) conserv proj

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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#### Energy Northwest, Washington

Bonneville Pwr Admin, Oregon

Energy Northwest elec rev rfdg bnds

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest proj 1 Columbia generating station & proj 3 elec rev rfdg bnds (Bonneville Pwr Admin)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest proj 1, Columbia Generating Sta, & proj 3 elec rfdg

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Proj 1 taxable)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) elec rev rfdg bnds (Proj 1)

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds var rate subseries F-1 (Bonneville Pwr Admin) ser 2008-F dtd 06/17/2008 due 07/01/20

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) proj 3 elec rev rfdg bnds (Bonneville Pwr Admin) ser 2014A due 07/01/2015

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) rfdg rev bnds (Bonneville Pwr Admin-Nuclear Proj #1 & #3) ser 1993C dtd 09/01/1993 due 07/01/1996 1999 2002-20

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Energy Northwest (Bonneville Pwr Admin) Columbia generating station elec rev bnds

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

Many issues are enhanced by bond insurance.

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# EXHIBIT 8

**Request ID: MS-BPA-4**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-15  Page(s): 11 Line(s): 6-9	BP-16-BPA-15 (Transmission Risk Testimony) P 11 lines 6-9 conclude that the TPP based on the proposed rates for the period FY 2016-2017 is 99.9%. Lines 2&3 indicate that BPA's policy standard is at least a TPP of 95%.  Question: At current rates what would the TPP be? If less than 95% what would the TPP at current rates be if a pro rata assignment of treasury borrowing authority were assigned to Transmission?  Question: Is a TPP of 99.9% the highest TPP estimated since a 95% TPP has been adopted as a BPA policy standard? What was the next highest estimate for either Power or Transmission?	Response Filed: 1/20/15  1. BPA did not perform this analysis as part of the BP-16 initial proposal. BPA is not required to perform new analysis in response to data requests. BPA's Rules of Procedure Governing Rate Hearings § 1010.8(b), 51 Fed. Reg. 7,611 (1986).  2. The BP-16 Initial Proposal and the BP-14 rate case have a two-year TPP of 99.9%, which are the highest calculated TPPs since the standard has been adopted. (For the BP-14 case, see the Transmission Revenue Requirement BP-14-FS-BPA-08, page 20, section 2.2.4, row 19, <a href="http://www.bpa.gov/Finance/RateCases/BP-14RateAdjustmentProceeding/BP14FinalProposal/BP-14-FS-BPA-08.pdf">http://www.bpa.gov/Finance/RateCases/BP-14RateAdjustmentProceeding/BP14FinalProposal/BP-14-FS-BPA-08.pdf</a> ).

## EXHIBIT 9

**UNITED STATES OF AMERICA  
U.S. DEPARTMENT OF ENERGY  
BEFORE THE  
BONNEVILLE POWER ADMINISTRATION**

**2016 RATE ADJUSTMENT  
PROCEEDING**

**Docket Number BP-16**

**DATA REQUEST PS-BPA-09**

**Reference:** Bliven & Fredrickson, BP-16-E-BPA-11, at page 1, line 5, through page 14, line 4.

Please describe whether and how the potential effect of BPA's Power Services or Transmission Services rates on BPA's credit rating is taken into account in setting such rates. Please include a description of whether and how a BPA objective to maintain or improve its credit rating results in rates or planned financial reserves that are higher than they otherwise would be and provide any analysis performed of the effect of such an objective on BPA rates or planned financial reserves.

**Response:**

BPA Response to Data Request PS-BPA-09

Date of Response: [REDACTED]

Person who Prepared the Response: [REDACTED]

Witness Knowledgeable About the Response: [REDACTED]

**Request ID: PS-BPA-9**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit:  BP-16-E-BPA-11  Page(s): 1:5 - 14:4 Line(s): 1:5 - 14:4	Request Filing:  PS-BPA-09.doc	Response Filed: 1/9/15  BPA objects to this request on the following grounds: 1. It is not relevant to the cited testimony, which discusses the Oversupply Rate, WECC and PEAK charges, and power rates policy issues 2. The request does not identify any portion of testimony to which it is directed. Instead it cites to the entire Power and Transmission Rate Policy testimony. Citation to an entire piece of testimony does not comply with Attachment A of BP-16-HOO-1, Order on Data Requests, under which parties must identify the page numbers and line numbers that are relevant to the request. The order contemplates that the party identify a portion of the testimony that is relevant to the data request. Furthermore, citation to the entire testimony indicates that Puget cannot identify any portion of the testimony that is relevant to the data request and supports BPA's first objection. Without waiving the objection, BPA responds as follows: In setting rates, BPA assumes that its credit rating will remain unchanged as a result of the proposed rates. BPA has not performed analyses or assessments of the potential effect of Power Services or Transmission Services rates on BPA's credit rating for the BP-16 Initial Proposal. No such potential effects were taken into account in setting such rates. BPA has not stated a credit rating-related objective in the rate case. Outside the rate case, BPA is interested in addressing BPA reserves and credit rating objectives but has not yet developed a process to do so and therefore this process has not had any effect on rates or financial reserve levels. Furthermore, BPA's proposed rates are set to recover costs. Because BPA has not stated an objective to maintain or improve its credit rating, it is not the case that such an objective resulted in rates or planned financial reserves that are higher than they otherwise have been. BPA has not performed analyses or assessments of the potential effect of Power Services or Transmission Services rates on BPA's credit rating for the BP-16 Initial Proposal. No such potential effects were taken into account in setting such rates. For technical questions about this response, please contact Rebecca Fredrickson or Ray Bliven by phone (360) 619-6156 or (503) 230-3685 and/or email <a href="mailto:refredrickson@bpa.gov">refredrickson@bpa.gov</a> or <a href="mailto:rdbliven@bpa.gov">rdbliven@bpa.gov</a> . For other questions about this response, please contact Beth Loebach by phone (503) 230-5099 and/or email <a href="mailto:ekloebach@bpa.gov">ekloebach@bpa.gov</a> .

# EXHIBIT 10

# Quarterly Financial Report

## 2015 First Quarter

## Management's Discussion & Analysis

### Profile

The Bonneville Power Administration (BPA) is a federal nonprofit power marketing administration based in the Pacific Northwest. Although BPA is part of the U.S. Department of Energy, it is self-funding and covers its costs by selling its products and services. BPA markets wholesale electrical power from 31 federal hydro projects in the Columbia River Basin, one nonfederal nuclear plant and several small nonfederal power plants. The dams are operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. About 30 percent of the electric power used in the Northwest comes from BPA. BPA's resources – primarily hydroelectric – make its power nearly carbon free.

BPA also operates and maintains about three-fourths of the high-voltage transmission in its service territory. BPA's service territory includes Idaho, Oregon, Washington, western Montana and small parts of eastern Montana, California, Nevada, Utah and Wyoming.

BPA promotes energy efficiency, renewable resources and new technologies that improve its ability to deliver on its mission. BPA also funds regional efforts to protect and enhance fish and wildlife populations affected by hydropower development in the Columbia River Basin.

BPA is committed to public service and seeks to make its decisions in a manner that provides opportunities for input from stakeholders. In its vision statement, BPA dedicates itself to providing high system reliability, low rates consistent with sound business principles, environmental stewardship and accountability.

### General

The Federal Columbia River Power System (FCRPS) financial statements combine the accounts of BPA, the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation), as well as the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities. Consolidated with BPA are "Special Purpose Corporations" known as Northwest Infrastructure Financing Corporations (NIFCs), from which BPA leases certain transmission facilities.

FCRPS revenues are derived principally from the sale of power and transmission products and services. In 1937, the Bonneville Project Act created BPA and directed it to market federally produced hydroelectric power to customers, giving preference and priority in power sales to public bodies and cooperatives. The Act authorized BPA to provide, construct, operate, maintain and improve transmission facilities to deliver federal power at cost. BPA is obligated to meet its statutory and contractual load obligations to preference customers so they can meet their total retail



loads and load growth, minus their own nonfederal power supply. As an open access transmission service provider, BPA has an obligation to provide Ancillary and Control Area Services to support basic transmission services, including providing balancing reserves for interconnected renewable generation. BPA remains committed to providing non-discriminatory open access transmission after meeting statutory responsibilities to preference customers and others.

BPA's hydroelectric power supply depends on the amount and timing of precipitation in the Columbia River Basin and the shape, or timing, of the resulting runoff. For ratemaking purposes, BPA assumes runoff consistent with "critical water conditions," which yield historically low power generation. Federal power is designated to first meet preference customer loads. Power produced in excess of BPA's firm load obligations, if available, is considered by BPA to be surplus power and is sold in the Western Interconnection wholesale power markets. When generation is not sufficient to meet loads, BPA purchases power on the wholesale markets or could acquire resources.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Rates

For the 2014-2015 rate period, BPA adopted a 9 percent average wholesale power rate increase and an 11 percent average transmission rate increase. The power rate increase stemmed from higher costs of operating and maintaining the federal hydroelectric system, higher costs to fund existing long-term agreements for the fish and wildlife mitigation program and reduced revenues from surplus power sales due to low market prices. The transmission rate increase was the first in six years and stemmed from both a growing construction program, driven by the need to repair and replace aging infrastructure, and from increased spending on mandatory compliance and security requirements. The rates took effect October 2013 and are effective through September 2015.

Power rates are constructed using BPA's Tiered Rate Methodology. Under this rate structure, BPA's publicly owned utility customers may purchase only a limited amount of power at Tier 1 rates. Tier 1 rates recover the costs of the majority of the FCRPS resources, fish and wildlife costs and energy efficiency. Tier 2 rates recover costs of resources that BPA acquires specifically for publicly owned utility customers that request BPA meet their net power requirements in excess of their purchases at Tier 1 rates.

Tiered rates provide BPA's customers with choices as to how they will serve their full power requirements. As designed, tiered rates also give BPA's customers even more reason to conserve energy. Energy conserved by a utility will reduce its need to add new resources or to purchase power from BPA at higher Tier 2 rates. BPA's rates also include incentives to reduce and control utilities' peak power use.

BPA is currently conducting a consolidated power and transmission rate proceeding, BP-16, to set rates for the fiscal year 2016 and 2017 rate period. BPA anticipates concluding the BP-16 rate proceeding in July 2015 with release of the Administrator's Final Record of Decision and Final Proposal. Rates are expected to go into effect Oct. 1, 2015, and following final approval by the Federal Energy Regulatory Commission will be effective through September 2017.

## Results of Operations

### *Operating Revenues*

A comparison of FCRPS operating revenues follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change %</u>
Consolidated gross sales				
Power	\$ 618,519	\$ 607,611	\$ 10,908	2%
Transmission	226,522	223,326	3,196	1
Bookouts (Power)	<u>(4,959)</u>	<u>(8,085)</u>	<u>3,126</u>	(39)
Sales	840,082	822,852	17,230	2
U.S. Treasury credits				
Fish credits	25,159	28,339	(3,180)	(11)
Other	1,150	1,150	-	0
Miscellaneous revenues				
Power	8,385	6,511	1,874	29
Transmission	<u>7,978</u>	<u>9,161</u>	<u>(1,183)</u>	(13)
Total operating revenues	<u>\$ 882,754</u>	<u>\$ 868,013</u>	<u>\$ 14,741</u>	2

Total operating revenues were \$883 million for the first quarter of fiscal year 2015, an increase of \$15 million as compared to operating revenues for the first quarter of fiscal year 2014.

Consolidated gross sales for Power and Transmission Services, including the effect of bookouts, increased \$17 million. Power Services sales, net of bookouts, increased \$14 million. The increase was primarily due to higher surplus power sales associated with higher streamflows, partially offset by lower prices in the first quarter of fiscal year 2015. Transmission Services sales increased \$3 million for oversupply events that occurred in fiscal year 2012.

Bookouts are presented on a net basis in the Combined Statements of Revenues and Expenses. When sales and purchases are scheduled with the same counterparty on the same path for the same hour, the power is typically booked out and not scheduled for physical delivery. The megawatt-hours that offset each other net to zero. The dollar values of these offsetting transactions are recorded as bookouts. The result is that revenues and expenses are presented on a net basis in the Combined Statements of Revenues and Expenses. Therefore, the accounting treatment for bookouts has no effect on net revenues, cash flows, or margins.

U.S. Treasury credits decreased \$3 million for the three months ended Dec. 31, 2014, from the comparable period a year earlier. Treasury credits are recovered as a reduction to BPA's cash payments to the U.S. Treasury. The Pacific Northwest Electric Power Planning and Conservation Act allows BPA to recover from the U.S. Treasury nonpower expenditures for fish and wildlife mitigation or other nonpower purposes. The \$3 million decrease was due to lower replacement power purchases for fish and wildlife mitigation purposes.

## Operating Expenses

A comparison of FCRPS operating expenses follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change %</u>
Operations and maintenance	\$ 486,221	\$ 441,046	\$ 45,175	10%
Purchased power	7,105	67,692	(60,587)	(90)
Nonfederal projects	99,277	192,294	(93,017)	(48)
Depreciation and amortization	<u>111,746</u>	<u>109,327</u>	<u>2,419</u>	2
Total operating expenses	<u>\$ 704,349</u>	<u>\$ 810,359</u>	<u>\$ (106,010)</u>	(13)

For the first quarter of fiscal year 2015, total operating expenses were \$704 million, a decrease of \$106 million as compared to the first quarter of fiscal year 2014.

Operations and maintenance expense increased \$45 million for the first quarter of fiscal year 2015. Energy Northwest's Columbia Generating Station nuclear power plant costs increased \$20 million due to higher budgeted maintenance and costs related to biennial refueling in fiscal year 2015. BPA recorded a \$9 million expense to write off a regulatory asset related to environmental redispatch costs for which BPA has recorded a liability. BPA will relieve this liability in fiscal year 2015 from existing cash without seeking explicit cost recovery in future rates. Also, in connection with the previously mentioned \$3 million increase to Transmission Services sales, BPA recorded a \$3 million noncash expense to amortize a regulatory asset for oversupply events that occurred in fiscal year 2012. In addition, the FCRPS incurred \$13 million higher expenses for fish and wildlife and for maintenance on both Corps of Engineers hydro facilities and transmission assets.

Purchased power expense, net of bookouts, decreased \$61 million. The decrease in purchased power was driven mainly by improved streamflows, thereby decreasing the need for market purchases.

Nonfederal projects debt service decreased \$93 million. In the fourth quarter of fiscal year 2014 and consistent with a regional cooperation debt refinancing, Energy Northwest, with BPA support, undertook debt management actions for Projects 1 and 3, which reduced debt service and amortization of the related regulatory assets from rate case estimates. BPA's reduced debt service expense for regional cooperation debt resulted in \$57 million higher net revenues for the first quarter of fiscal year 2015 than would have otherwise been reported. In addition, lower scheduled debt maturities for Projects 1 and 3 and Columbia Generating Station for fiscal year 2015 resulted in a further reduction of \$36 million in nonfederal projects expense.

## Net Interest Expense

A comparison of FCRPS net interest expense follows for the three months ended Dec. 31, 2014 and Dec. 31, 2013:

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change %</u>
Interest expense	\$ 88,241	\$ 93,905	\$ (5,664)	(6)%
Allowance for funds used during construction	(13,322)	(11,617)	(1,705)	15
Interest income	<u>(3,024)</u>	<u>(4,806)</u>	<u>1,782</u>	(37)
Net interest expense	<u>\$ 71,895</u>	<u>\$ 77,482</u>	<u>\$ (5,587)</u>	(7)

Net interest expense was \$72 million for the first quarter of fiscal year 2015, a decrease of \$6 million as compared to net interest expense for the first quarter of fiscal year 2014.

- Interest expense decreased \$6 million due to lower weighted-average interest rates offset by higher average debt balances.
- Allowance for funds used during construction increased \$2 million due to increased construction work-in-progress balances.
- Interest income decreased \$2 million primarily due to lower interest rates earned on cash balances with U.S. Treasury.

## Liquidity and Capital Resources

### *Cash and cash equivalents and Financial reserves*

As of Dec. 31, 2014, the FCRPS cash and cash equivalents balance was \$693 million. BPA's cash and cash equivalents balance was \$364 million, and the combined cash balance held by Corps and Reclamation was \$329 million.

To ensure BPA is able to meet its financial responsibilities to counterparties and to the U.S. Treasury, BPA relies on risk mitigation measures such as financial reserves, a line of credit with the U.S. Treasury and a cost recovery adjustment clause that can raise rates, if needed. BPA's financial reserves were \$1.21 billion at Dec. 31, 2014, as compared to \$1.24 billion at Dec. 31, 2013. Financial reserves, a non-GAAP liquidity measure used by BPA management, consist of BPA cash and cash equivalents, investments in U.S. Treasury market-based special securities and deferred borrowing. The U.S. Treasury market-based special securities reflect the market value as if securities were liquidated as of the end of the period. Deferred borrowing represents amounts that BPA is authorized to borrow from the U.S. Treasury for capital expenditures on utility plant and for expenditures on certain regulatory assets, primarily related to fish and wildlife and conservation measures, that BPA has incurred but has not borrowed for as of the end of the period.

A comparison of FCRPS cash flows follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Change %</u>
Cash and cash equivalents at beginning of quarter	\$ 859,242	\$ 1,010,128	\$ (150,866)	(15)%
Cash flows from				
Operating activities	66,758	39,909	26,849	67
Investing activities	(442,248)	(510,234)	67,986	(13)
Financing activities	<u>209,290</u>	<u>353,509</u>	<u>(144,219)</u>	(41)
Net increase (decrease) in cash and cash equivalents	<u>(166,200)</u>	<u>(116,816)</u>	<u>(49,384)</u>	42
Cash and cash equivalents at end of quarter	<u>\$ 693,042</u>	<u>\$ 893,312</u>	<u>\$ (200,270)</u>	(22)

### *Operating activities*

Net cash provided by operating activities of the FCRPS was \$67 million for the first quarter of fiscal year 2015, an increase of \$27 million as compared to net cash provided by operating activities for the first quarter of fiscal year 2014. As a result of the factors previously discussed, the FCRPS had net revenues of \$107 million for the three

months ended Dec. 31, 2014, as compared to net expenses of \$20 million for the three months ended Dec. 31, 2013. The increase in operating cash flows primarily reflects reduced power purchases and higher sales, offset partially by changes in receivables and unbilled revenues.

### *Investing activities*

Net cash used for investing activities of the FCRPS decreased \$68 million to \$442 million for the three months ended Dec. 31, 2014, when compared to the three months ended Dec. 31, 2013. BPA continues to make significant investments in utility plant with \$277 million invested year-to-date in fiscal year 2015, an increase of \$84 million from the comparable period in fiscal year 2014. Transmission capital expenditures for the first quarter of fiscal year 2015 were higher due to work on key projects such as Central Ferry-Lower Monumental Line and the Celilo Substation.

The net incremental investment for U.S. Treasury market-based special securities classified as investments on the Combined Balance Sheets, purchases less maturities, as of Dec. 31, 2014, was \$136 million, a decrease of \$39 million from the comparable period in the prior year. Under a banking arrangement with the U.S. Treasury, BPA agreed to invest at least \$100 million annually through fiscal year 2018 or until the BPA fund is fully invested.

Fiscal year 2015 deposits to the Lease-Purchase Program restricted trust funds decreased by \$109 million as a result of entering into larger individual leases in the first quarter of fiscal year 2014. These leases included the Central Ferry-Lower Monumental Line project under the Lease-Purchase Program.

### *Financing activities*

Net cash provided by financing activities was \$209 million for the first quarter of fiscal year 2015, a decrease of \$144 million as compared to net cash provided by financing activities for the first quarter of fiscal year 2014. In the first quarter of fiscal year 2015, BPA borrowings from the U.S. Treasury decreased \$27 million to \$156 million, of which \$117 million was at fixed interest rates and \$39 million at variable interest rates. Borrowings were used to fund investments of \$107 million for transmission, \$3 million for generation, \$23 million for conservation measures and \$23 million for fish and wildlife measures. BPA's U.S. Treasury borrowing strategy and its connection to expenditures for both utility plant and certain regulatory assets has not changed from the prior year.

Nonfederal debt proceeds decreased \$109 million from the first quarter of fiscal year 2014. This decrease was primarily due to higher Lease-Purchase Program activity in fiscal year 2014 as previously discussed.

In December 2014, NIFC III sold its lease receivable from BPA, rights to future lease revenue, and title to the leased assets to the Port of Morrow, Oregon, a port district located in Morrow County, Oregon. NIFC III's \$200 million bank line of credit was replaced by a \$193 million capital lease with the Port of Morrow, Oregon. The net financial reporting effect of this transaction was a nonfederal debt cash repayment of \$9 million and a \$2 million noncash increase to nonfederal debt.

## Adjusted Net Revenues

In fiscal year 2013, BPA developed a new Key Agency Target called Adjusted Net Revenues (ANR). ANR, a non-GAAP measurement, is net revenues after removing the current year effects of certain debt management actions, in particular the Debt Service Reassignment, from prior years. Beginning in fiscal year 2014, ANR also removed the effects of certain debt management actions associated with Energy Northwest's Projects 1 and 3 debt refinancing actions. These actions, including debt maturity extensions, now enable BPA to use amounts otherwise collected in its rates to repay Energy Northwest debt to instead repay a like amount of higher interest rate federal appropriations.

Debt Service Reassignment actions were implemented to increase available U.S. Treasury borrowing authority by extending Energy Northwest's debt repayments and using the resultant freed-up cash to repay U.S. Treasury debt. With the Energy Northwest debt maturing and due, nonfederal projects expense would have been higher, resulting in lower FCRPS net revenues.

For both fiscal years 2015 and 2014, debt management actions for Energy Northwest Projects 1 and 3 lowered nonfederal projects expense compared to what would have otherwise been reported and what was included for recovery in Power Services rates. This effect resulted in higher reported net revenues.

The effects of these debt management actions are not considered to be related to ongoing FCRPS operations, and management has therefore determined that ANR is a better representation of FCRPS financial performance for the periods presented.

A comparison of ANR follows for the three months ended Dec. 31, 2014, and Dec. 31, 2013:

<i>(Millions of dollars)</i>	<u>2014</u>	<u>2013</u>
Net revenues (expenses)	\$ 107	\$ (20)
Adjustments		
Debt Service Reassignment	44	43
Energy Northwest Projects 1 and 3 debt management actions	(57)	-
Adjusted Net Revenues	<u>\$ 94</u>	<u>\$ 23</u>

## Additional Information

To see BPA's annual and quarterly reports, go to

[www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/default.aspx](http://www.bpa.gov/Finance/FinancialInformation/AnnualReports/Pages/default.aspx)

For general information about BPA, refer to BPA's home page at [www.bpa.gov](http://www.bpa.gov)

For information on Power Services, go to [www.bpa.gov/power](http://www.bpa.gov/power)

For information on Transmission Services, go to [www.transmission.bpa.gov](http://www.transmission.bpa.gov)

# Federal Columbia River Power System

## Combined Balance Sheets <sup>(Unaudited)</sup>

(Thousands of dollars)

	As of December 31, <u>2014</u>	As of September 30, <u>2014</u>
<b>Assets</b>		
<b>Utility plant</b>		
Completed plant	\$ 16,713,571	\$ 16,618,215
Accumulated depreciation	(6,011,354)	(5,941,078)
	<u>10,702,217</u>	<u>10,677,137</u>
Construction work in progress	1,751,448	1,603,811
Net utility plant	<u>12,453,665</u>	<u>12,280,948</u>
<b>Nonfederal generation</b>	<b>3,332,163</b>	<b>3,361,386</b>
<b>Current assets</b>		
Cash and cash equivalents	693,042	859,242
Short-term investments in U.S. Treasury securities	696,723	465,756
Accounts receivable, net of allowance	27,777	24,321
Accrued unbilled revenues	334,988	283,377
Materials and supplies, at average cost	117,712	112,445
Prepaid expenses	60,967	32,443
Total current assets	<u>1,931,209</u>	<u>1,777,584</u>
<b>Other assets</b>		
Regulatory assets	6,672,450	6,741,604
Investments in U.S. Treasury securities	-	94,542
Nonfederal nuclear decommissioning trusts	285,871	279,210
Deferred charges and other	444,189	396,876
Total other assets	<u>7,402,510</u>	<u>7,512,232</u>
<b>Total assets</b>	<b>\$ 25,119,547</b>	<b>\$ 24,932,150</b>
<b>Capitalization and Liabilities</b>		
<b>Capitalization and long-term liabilities</b>		
Accumulated net revenues	\$ 2,929,595	\$ 2,823,085
<b>Debt</b>		
Federal appropriations	4,093,746	4,090,050
Borrowings from U.S. Treasury	4,059,040	3,944,040
Nonfederal debt	6,697,585	6,439,711
Total capitalization and long-term liabilities	<u>17,779,966</u>	<u>17,296,886</u>
<b>Commitments and contingencies (See Note 14 to 2014 Audited Financial Statements)</b>		
<b>Current liabilities</b>		
<b>Debt</b>		
Borrowings from U.S. Treasury	339,000	298,000
Nonfederal debt	598,323	799,829
Accounts payable and other	454,051	555,165
Total current liabilities	<u>1,391,374</u>	<u>1,652,994</u>
<b>Other liabilities</b>		
Regulatory liabilities	2,300,282	2,322,386
IOU exchange benefits	2,768,003	2,795,470
Asset retirement obligations	177,709	176,127
Deferred credits and other	702,213	688,287
Total other liabilities	<u>5,948,207</u>	<u>5,982,270</u>
<b>Total capitalization and liabilities</b>	<b>\$ 25,119,547</b>	<b>\$ 24,932,150</b>

# Federal Columbia River Power System

## Combined Statements of Revenues and Expenses <sup>(Unaudited)</sup>

(Thousands of dollars)

	Three Months Ended December 31,		Fiscal Year-to-Date Ended December 31,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Operating revenues</b>				
Sales	\$ 840,082	\$ 822,852	\$ 840,082	\$ 822,852
U.S. Treasury credits	26,309	29,489	26,309	29,489
Miscellaneous revenues	16,363	15,672	16,363	15,672
Total operating revenues	<b>882,754</b>	868,013	<b>882,754</b>	868,013
<b>Operating expenses</b>				
Operations and maintenance	486,221	441,046	486,221	441,046
Purchased power	7,105	67,692	7,105	67,692
Nonfederal projects	99,277	192,294	99,277	192,294
Depreciation and amortization	111,746	109,327	111,746	109,327
Total operating expenses	<b>704,349</b>	810,359	<b>704,349</b>	810,359
Net operating revenues	<b>178,405</b>	57,654	<b>178,405</b>	57,654
<b>Interest expense and (income)</b>				
Interest expense	88,241	93,905	88,241	93,905
Allowance for funds used during construction	(13,322)	(11,617)	(13,322)	(11,617)
Interest income	(3,024)	(4,806)	(3,024)	(4,806)
Net interest expense	<b>71,895</b>	77,482	<b>71,895</b>	77,482
<b>Net revenues (expenses)</b>	<b>\$ 106,510</b>	\$ (19,828)	<b>\$ 106,510</b>	\$ (19,828)

# Federal Columbia River Power System

## Combined Statements of Cash Flows <sup>(Unaudited)</sup>

(Thousands of dollars)

	Fiscal Year-to-Date Ended December 31,	
	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Net revenues (expenses)	\$ 106,510	\$ (19,828)
Non-cash items:		
Depreciation and amortization	111,746	109,327
Amortization of nonfederal projects	55,259	121,974
Changes in:		
Receivables and unbilled revenues	(54,554)	(42,588)
Materials and supplies	(5,267)	(3,608)
Prepaid expenses	(28,524)	(26,518)
Accounts payable and other	(70,395)	49,492
Regulatory assets and liabilities	(11,219)	(9,035)
IOU exchange benefits	(27,467)	(115,722)
Other assets and liabilities	(9,331)	(23,585)
<b>Net cash provided by operating activities</b>	<b>66,758</b>	<b>39,909</b>
<b>Cash flows from investing activities</b>		
Investments in utility plant, including AFUDC	(277,187)	(192,805)
U.S. Treasury Securities:		
Purchases	(404,000)	(350,000)
Maturities	268,069	174,936
Deposits to nonfederal nuclear decommissioning trusts	(833)	(800)
Lease-purchase trust funds:		
Deposits to	(70,821)	(179,472)
Receipts from	42,524	37,907
<b>Net cash used for investing activities</b>	<b>(442,248)</b>	<b>(510,234)</b>
<b>Cash flows from financing activities</b>		
Federal appropriations:		
Proceeds	3,696	11,214
Borrowings from U.S. Treasury:		
Proceeds	156,000	183,000
Repayment	-	(3,000)
Nonfederal debt:		
Proceeds	70,861	179,493
Repayment	(16,007)	(7,257)
Customers:		
Net advances (refunds) for construction	3,176	753
Repayment of funds used for construction	(8,436)	(10,694)
<b>Net cash provided by financing activities</b>	<b>209,290</b>	<b>353,509</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(166,200)</b>	<b>(116,816)</b>
Cash and cash equivalents at beginning of year	859,242	1,010,128
<b>Cash and cash equivalents at end of quarter</b>	<b>\$ 693,042</b>	<b>\$ 893,312</b>
<b>Supplemental disclosures:</b>		
Cash paid for interest, net of amount capitalized	\$ 87,415	\$ 96,013
<b>Significant noncash investing and financing activities:</b>		
Nonfederal debt extinguished through refinancing for Energy Northwest	\$ -	\$ 22,952
Other nonfederal	\$ 1,514	\$ -

# EXHIBIT 11

## Newsroom

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## Credit rating agencies affirm BPA is stable

April 11, 2014

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### Sale of BPA-backed Energy Northwest bonds is Positive; Bond ratings agencies agree, outlook for BPA is stable

The nation's three major investment credit ratings agencies have affirmed BPA is on solid financial footing. During the week of March 24, Fitch rated BPA-backed bonds AA with a stable outlook. Moody's Investors Service also called BPA's financial outlook stable with an Aa1 rating. Finally, Standard & Poor's gave the third stable outlook, assigning BPA-backed financial instruments a AA-rating. The ratings are unchanged from the last review.

BPA requests a review of its credit rating each time BPA-backed bonds are offered. In the absence of an active offering in the bond market, the rating agencies will usually refresh BPA's ratings once per year.

On April 8, Energy Northwest and BPA went to the capital markets with a \$634 million bond sale. These bonds will finance capital improvements at Energy Northwest's Columbia Generating Station nuclear plant, restructure Energy Northwest's debt portfolio to align it more closely with Columbia's asset life, and glean refinancing savings of about \$38.6 million across fiscal years 2014 through 2024.

Javier Fernandez, BPA's acting treasurer, was buoyed by the market's response.

"The April 8 bond pricing results are a direct consequence of BPA's financial strength, as evidenced by our credit ratings and active investor outreach," says

### Related Articles (by tag)

[Annual report recognizes progress in 2014](#)

Monday, December 15, 2014

[Bond sale will save BPA ratepayers millions of dollars](#)

Wednesday, August 06, 2014

[BPA makes 30th consecutive annual U.S. Treasury payment in full and on time](#)

Tuesday, October 08, 2013

[Low natural gas prices may drive up FY 2014-2015 power rates](#)

Tuesday, June 05, 2012

Fernandez. "I am thrilled by the outstanding pricing results, which are a testament to our commitment to delivering the highest value to our ratepayers."

In reviewing the BPA-supported Energy Northwest bonds, the rating agencies confirmed their prior ratings and noted several BPA strengths that should inspire investor confidence. The fact that BPA is a federal entity with the support of the U.S. government lends significant credibility to BPA operations. This government support is explicit, as evidenced by BPA's \$7.7 billion Treasury borrowing authority and implicit due to BPA's high-profile role as a stable entity in the Pacific Northwest and its position within the Department of Energy. The agencies also cited BPA's competitive rates and long-term power contracts that will provide a revenue stream through 2028 as factors contributing to the across-the-board stable outlook.

While a stable rating is good, BPA is always looking for opportunities to improve. Higher ratings would benefit BPA's ratepayers by lowering the costs, such as interest on debt, that are tied to bond ratings. When BPA's cost of borrowing money is lower, fewer funds must be recovered through rates to repay it.

The ratings agencies noted that BPA faces several challenges. Some, such as the effect of hydro conditions on financial performance, are not within BPA's control, but are mitigated in risk analysis and planning processes. But other challenges are within BPA's control, such as addressing BPA's financial reserves position, its significant future capital needs in view of limited U.S. Treasury borrowing authority, and its overall debt structure and management. To address these issues, BPA is planning a series of public discussions on financial reserves and debt management later this summer as part of BPA's Integrated Program Review. BPA continues to develop access-to-capital and debt management strategies to secure adequate and low-cost access to capital in the long term.

Preserving BPA's current high bond rating from all three credit ratings agencies is a key agency target for fiscal year 2014. The good news from Fitch, Moody's and Standard & Poor's means BPA will meet that target. With continued strong financial performance, risk mitigation, regional and ratepayer support, BPA will be well positioned to maintain or improve those ratings in the future.

Additional information for investors can be found [here](#).

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## EXHIBIT 12

(Excerpt; Complete Presentation available at: <http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Financial%20Reserves%20Workshop.pdf>)

# BP-16 Rates Workshop

## Financial Reserves August 13, 2014



## Review July 16th Meeting Materials

- BPA issues more 3<sup>rd</sup> party debt than in the past (estimated \$7 Billion over next 10 years). The interest rate BPA receives is a function of market conditions and BPA's credit rating.
- The difference in interest rates for a one-category credit rating difference is greater today (.63%) than before the financial crisis (.17%).
- Agency Reserves for Risk have declined since 2008.
- The amount of BPA Reserves for Risk, and any BPA plans to increase or decrease future Reserves for Risk levels, are material factors in BPA's credit rating. Plans to decrease Agency reserve levels for rate relief, as was done in the Transmission part of the BP-14 rate case, were viewed negatively in light of Agency reserves levels that were considered to be low.
- BPA has no policy on Reserves for Risk levels other than the 95% TPP standard.
- TPP standard defines a floor level of Reserves for Risk for Power and Transmission (roughly speaking, \$0 and \$200M respectively, at the levels of risk reflected in our BP-14 models and relying on \$430M of the Treasury Facility for Power TPP).
- Compared to their total revenue and to their financial risk, reserves attributed to Power are low, and reserves attributed to Transmission are high.

# Why We Might Want to Fix the Current Situation

Two main considerations:

## 1. Agency Reserve Levels

- Agency reserves have been declining, and are now commensurate with A-rated peers, below BPA's desired rating of AA.
- Past practice of using reserves for TS rate relief puts negative pressure BPA's credit rating.
- Significant financial implications of a downgrade:
  - BPA issues more 3<sup>rd</sup> party debt than in the past (estimated \$7 Billion over next 10 years). The interest rate BPA receives is a function of market conditions and BPA's credit rating.
  - The difference in interest rates between higher and lower credit ratings is greater than before the financial crisis (.63% between AA and A today vs. .17% before the financial crisis).

## 2. Business line reserve levels relative to their financial risk

- Compared to their total revenue and to their financial risk, reserves attributed to Power are low, and reserves attributed to Transmission are high.
- At the end of FY 2013, cash attributed to TS was about 400 days; cash attributed to PS was about 50 days.

# How Much Does BPA's Credit Rating Matter?

- BPA has direct and indirect responsibility for paying debt service on \$14.6 billion of principal outstanding.
- \$6.8 billion of such debt has been issued by third parties in the municipal bond market and carry BPA's underlying credit rating (Non-Federal Debt).
- BPA forecasts that in the next 10 years, starting in 2015, ~\$7.0 billion of Non-Federal Debt will be issued, carrying BPA's underlying credit rating. Of this, \$2.3 billion will be attributed to Transmission and \$4.7 billion will attributed to Power.
- A 50 basis point<sup>1/</sup> interest rate increase (+0.50%) today would result in ~\$377 million<sup>2/</sup> PV increase in interest costs on the ~\$7.0 billion Non-Federal Debt forecast to be issued over the next 10 years. This equates to an average annual interest expense increase of ~\$25 million per year over the 20 year life of the debt.
- *Supporting BPA's credit rating with additional financial metrics (reserves, debt ratio, & coverage ratio) may be worth the investment and an advantage for both Power and Transmission.*

<b>Comparison of Debt Outstanding to Credit Rating</b> for U.S. Public Power Utilities with Generation Ownership Exposure		
# of Entities	Avg. Debt Outstanding	Average Credit Rating
4	3.3B	Aa1
10	1.4B	Aa2
12	1.3B	Aa3
38	0.3B	A1
35	0.2B	A2
23	0.8B	A3
2	0.3B	Ba1

124

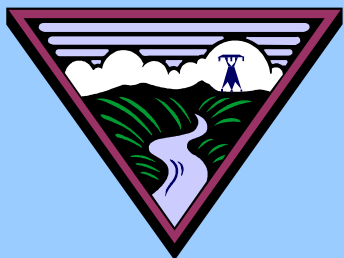
- The table above shows the average debt outstanding for all U.S. Public Power Utilities with Generation Ownership Exposure grouped by credit rating.
- On average, utilities with more debt have a higher credit rating likely because of their reliability on debt, size of their economic base and their increased focus on maintaining credit ratings.

<sup>1/</sup> Possible impact of taxable and tax-exempt interest rate increase between AA and A credit post financial crisis. Estimate based on municipal market data from 12/7/2007 to 2/7/2013.

<sup>2/</sup> Assumes average 20 year maturity, discounted at BPA's weighted average cost of capital (4.7% as of 9/30/2013). At a 9% discount rate, PV is \$235m.

\* Estimate is \$4.7 billion issued taxable (\$2.4B for P & \$2.3B for T) and \$2.3 billion tax-exempt (all P).

## EXHIBIT 13



# **Bonneville Power Administration**

## **Rate Case Workshop with Customers**

*Presented at the February 25, 2003, Policy-Level SN CRAC Workshop*

*-Revised on Feb. 26, 2003*



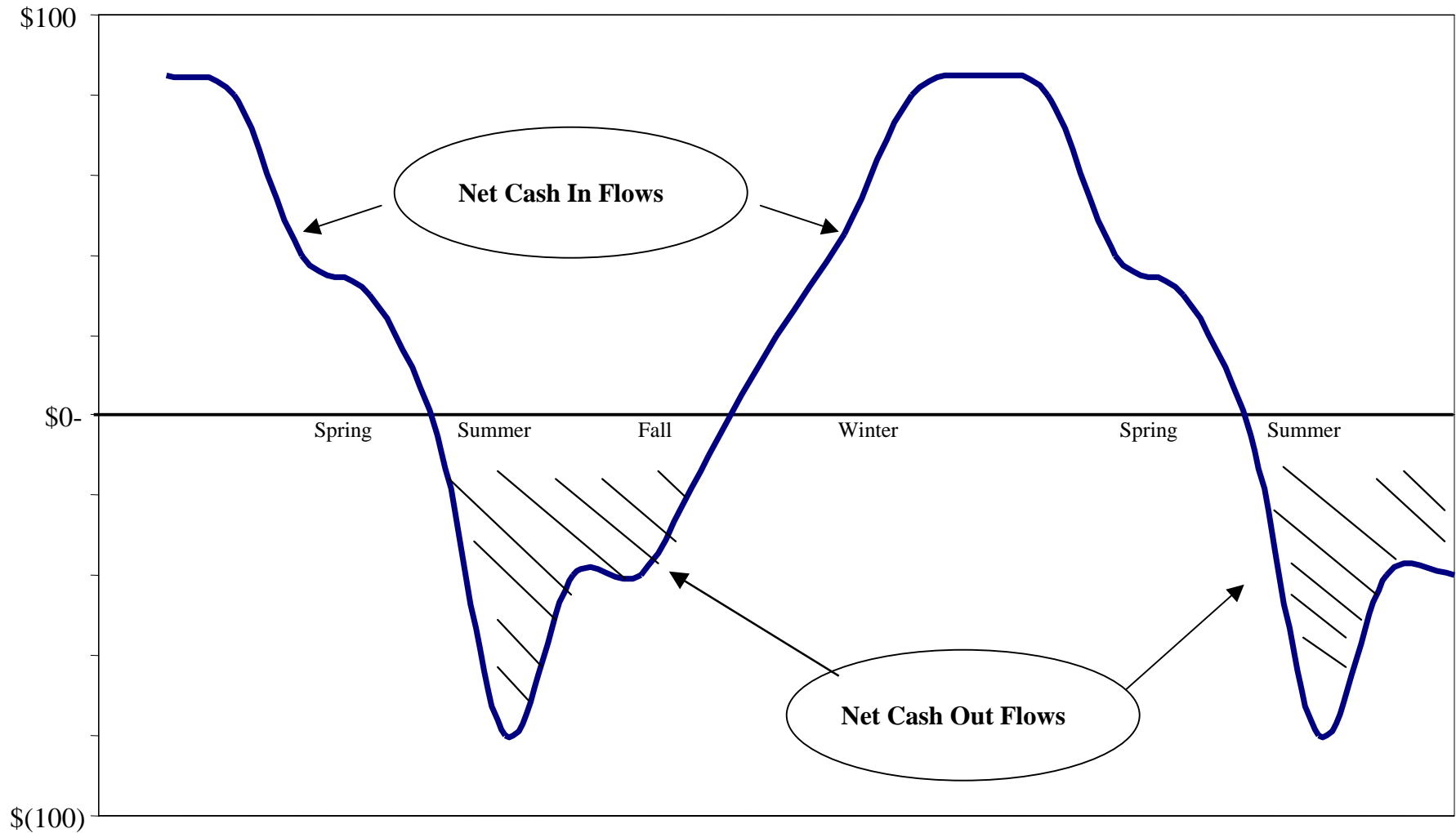
## Topics to be Covered Today

- Typical Seasonal Net Cash Flow Profile
- Pushing the Problem Out
- Debt Optimization
- Debt Service Reassignment
- Capitalization and Borrowing Authority
- Standard & Poor's Perspective on BPA
- Liquidity Bridge vs. Pushing More of the Problem Out
- Options and Impacts for the Uses of Cash Tools



# Typical Seasonal Net Cash Flow Profile

(In Millions)



•Excludes Payment to Treasury

\*\* Values are for illustrative purposes only



## Pushing the Problem Out

BPA has already used a significant number of “cash tools” that have pushed part of the problem out.

	<i>Total Committed</i>
	<i>Cash Tools</i>
	<i>( \$in millions )</i>
■ Reserve Fund Free-ups	~210
■ Conservation Augmentation (Accounting Change)	~50
■ Corps Plant-in-service Deferral	~100
■ Capitalized Spent Fuel Storage Facility	~ 35
■ ENW O&M	~72
■ IOU Deferral	~55
■ <u>Unfunded Liability – Decommissioning Fund</u>	~10
■ <b>Total</b>	<b>~\$532</b>
<i>Estimated Annual Impact 2007-11</i>	<i>~\$70 to \$85</i>

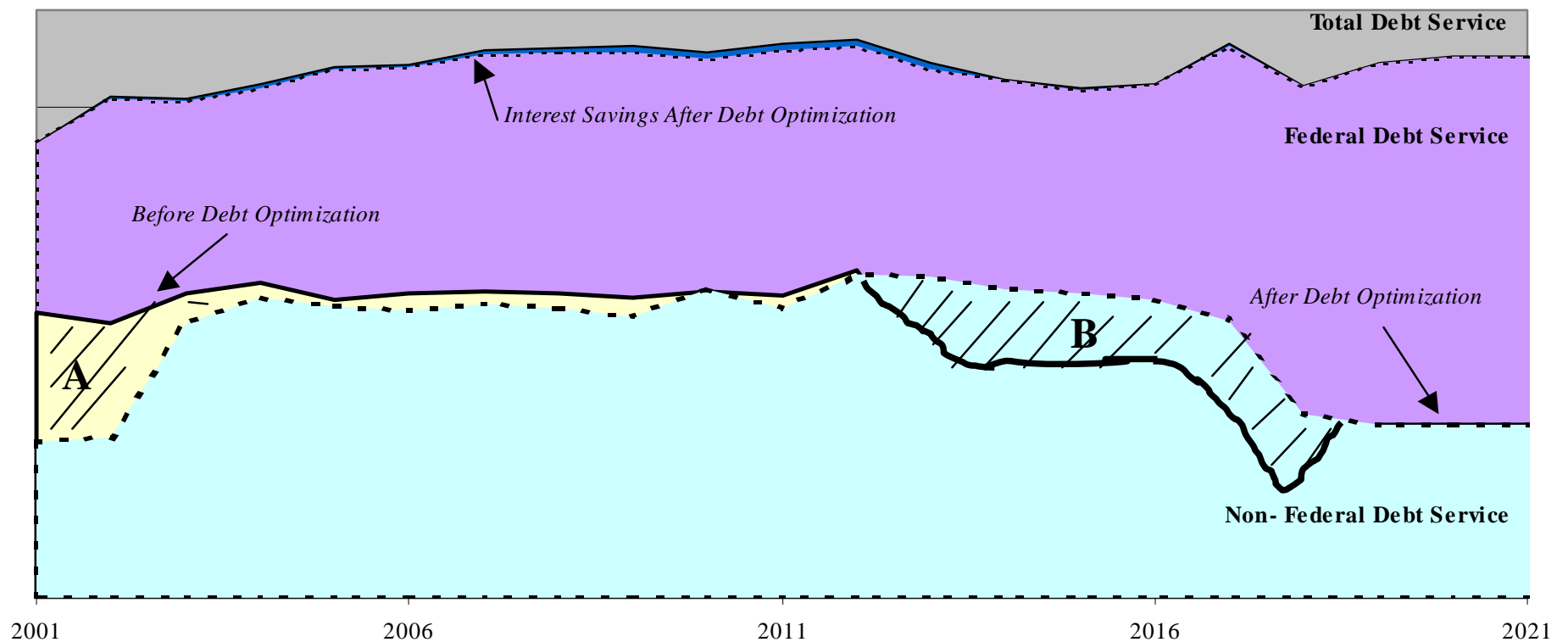
These changes will create upward pressure on rates starting in 2004, but having the biggest effect in 2007 and beyond.



# What is Debt Optimization?

Debt Optimization funds are often mentioned as a “cash tool” we should use to reduce or avoid the SN CRAC.

**Annual Debt Service Before and After Debt Optimization**

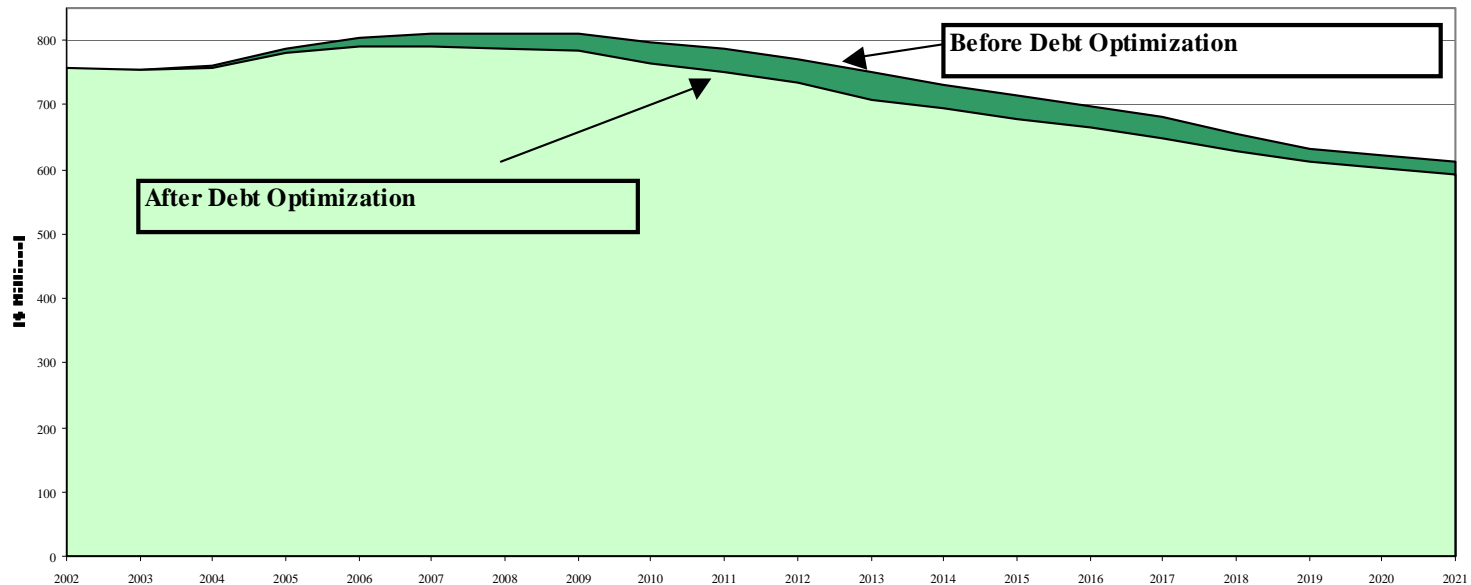


Benefits of Debt Optimization: Replenish borrowing authority by up to \$3.2 billion through 2012 while keeping BPA’s overall debt level the same.



## Effects of Debt Optimization

### Estimated BPA Total Annual *Interest Expense* Savings Due to Debt Optimization



- Reduce BPA's total interest expense by an average of about \$20 million per year through 2018.
- At its peak, Debt Optimization allows BPA to recognize about \$40 million per year in interest savings.
- Savings to date have been minimal because savings ramp-up over time.
- If the program was stopped, BPA would not recognize approximately \$350 million in interest savings.



## Debt Service Reassignment

- Debt Service Reassignment costs PBL nothing.
- PBL can only use \$1.2 billion of Debt Optimization without starting to pay post 2012-2018 debt and thereby raising 2007-2011 rates.
- TBL can use the restored Borrowing Authority to fund infrastructure addressing reliability constraints in the transmission system. These investments create more efficient power markets by decreasing costs and reducing price volatility.



## Capitalization and Borrowing Authority

- Recently BPA received \$700 million additional borrowing authority.
- Based on estimated capital spending forecast, BPA will run out of borrowing authority in:
  - 3 years (FY06) w/o debt optimization savings from ENW refinancings through FY03 or repayment
  - 4 years (FY07) with repayment
  - 7 years (FY10) with debt optimization savings from ENW refinancings through FY03 & repayment



## Standard & Poor's Perspective on BPA

Standard & Poor's AA- rating with a stable outlook on the BPA backed ENW bonds reflects the following expectations:

- Existing CRAC mechanisms will trigger and be sufficient to:
  - Maintain positive cash flow
  - Rebuild cash reserves
- Current costs will be recovered at the time they are incurred
- Risk of meeting Treasury payment will not decrease from BPA's historical 88% probability level

*A downgrade from the current credit rating will increase debt service costs on future refinancings, and could cause added costs and liquidity demands for collateral from trading partners.*



# Liquidity Bridge Vs. Pushing More of the Problem Out

<b>Cash &amp; Capital Collision</b>				
(\$ Millions)				
<b>Liquidity Tool</b>	<b>FY03 Potential</b>	<b>Impact on Reserves</b>	<b>Impact on Borrowing Authority</b>	<b>FY04-06 Consequences</b>
<b>\$250 M Treasury Note</b>	\$250	+	-	Higher Costs, Reduced Borrowing Authority
<b>Apply Treasury Payment to 2004-2006 Expenses</b>	\$315	+	-	Higher Costs, Calls & Penalties
<b>Prepay Treasury</b>	\$315	-	+	Reduced Cash Flexibility Possible
<b>Recognize Previous Prepayments</b>	\$472	+	-	Higher Costs, Reduced Borrowing Authority
<b>Defer Treasury Payment</b>	\$170	+	-	Higher Costs, Penalties, Political Consequences Reduced Borrowing Authority

If BPA used all these Cash Tools it would reduce borrowing authority by \$1.2 billion and have an annual carrying cost of approximately \$50 million.



# Options and Impacts for Uses of Cash Tools

(\$ millions)

	Option	Impact
1	Hold Treasury Payment to pay 2004-2006 expenses for Rate Relief (Value: \$315)	Higher Costs Reduce Rates Near Term Reduced Borrowing Authority Borrowing for the Future
2	Hold 2003 Treasury Payment and use previous amounts pre-paid as credits (Value: \$472)	Higher Costs Reduce Rates Near Term Reduced Borrowing Authority Borrowing for the Future
3	Hold Advance Treasury Payment for Liquidity and pay later in 2004 if possible (Value: \$315)	May Not Borrow for Future Maintains Rating Agencies Confidence Does not borrow to pay for groceries
4	Hold Other Debt Optimization 2004-2006 Planned Payments (Value: \$150)	Higher Costs Reduce Rates Near Term Reduced Borrowing Authority Borrowing for the Future
5	Do not pay Treasury (Value: \$170)	Higher Costs Reduce Rates Near Term Reduced Borrowing Authority Borrowing for the Future
6		
7		

# EXHIBIT 14

**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**

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

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 Aa1 rating. 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 competitiveness. 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](http://www.moodys.com) for a copy of these methodologies.

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# EXHIBIT 15

**Request ID: PX-BPA-13**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-14  Page(s): 15 Line(s): 11-14	What constitutes an error/rate change that is too large to be uncorrected?	Response Filed: 1/14/15  We do not have a bright line test for determining when an error would be too large to remain uncorrected. We did not determine what level would have been small enough to remain uncorrected since that determination was not necessary to this decision. For technical questions about this response, please contact Rebecca Fredrickson by phone (360) 619-6156 and/or email <a href="mailto:refredrickson@bpa.gov">refredrickson@bpa.gov</a> . For all other questions, please contact Barry Bennett (503) 230-4053 and/or email <a href="mailto:bbennett@bpa.gov">bbennett@bpa.gov</a> .

# EXHIBIT 16

**Request ID: PX-BPA-12**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit: BP-16-E-BPA-14  Page(s): 15 Line(s): 1-19	Please describe the O&M allocation method used in BP-12 and the O&M allocation method that was developed for BP-14, but not applied to the BP-14 rates. Please explain why the O&M allocation methodology was modified.	Response Filed: 1/16/15  The BP-12 rates were settled, and therefore no methodology was identified. The BP-14 methodology followed the methodology from prior rate cases, which allocated O&M costs to segments according to the 3-year historical average O&M identified by segment. The cited testimony addresses a change in the BP-14 allocation results rather than a modification to the allocation methodology. In the BP-14 final studies, the O&M costs were allocated to each segment using preliminary BP-12 historical O&M data instead of allocating O&M costs using the historical O&M developed in the BP-14 segmentation study. For technical questions about this response, please contact Ron Messinger by phone at (360) 619-6217 or email at <a href="mailto:remessinger@bpa.gov">remessinger@bpa.gov</a> . For all other questions, please contact Tom Davis by phone at 503-230-3968 or email at <a href="mailto:tedavis@bpa.gov">tedavis@bpa.gov</a> .

# EXHIBIT 17

**Request ID: PX-BPA-6**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit : BP-16-E-BPA-07  Page(s): 89 Line(s) : Table 1	Please explain the drivers behind the increases in O&M, Transmission Acquisition & Ancillary Services, and Depreciation revenue requirements allocated to the Southern Intertie (Table 1, lines 4, 5, and 6). Also, what allocation factors or allocation methods are used for these categories of revenue requirements as well as Net Interest Expense and Planned Net Revenues (Table 1, lines 4, 5, 6, 7, and 8)?	<p>Response Filed: 1/16/15</p> <p>Explaining the drivers of change requires a comparison and analysis of the BP-14 and BP-16 segmented revenue requirements. BPA has not performed such an analysis. BPA is not required to perform new analysis in response to data requests. BPA's Rules of Procedure Governing Rate Hearings § 1010.8(b), 51 Fed. Reg. 7,611 (1986). Generally speaking, O&amp;M costs on average are higher in BP-16. This was depicted in total for Transmission in a public workshop on August 13, 2014. It can be found at: <a href="http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_08-13-14.pdf">http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_08-13-14.pdf</a>. In addition, the shift from a 3-year average for O&amp;M to a 7-year average in the Segmentation Study would influence any difference in the segmented revenue requirements for the BP-16 rate case when compared to the BP-14 final proposal. The effect of shifting to a 7-year average for O&amp;M was discussed in a public workshop on August 27, 2014. The presentation can be found at: <a href="http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_08-27-14.pdf">http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_08-27-14.pdf</a>. Transmission Acquisition &amp; Ancillary Services costs are higher as well, as shown in the August 13, 2014 workshop presentation. The non-between business line program costs within Transmission Acquisition &amp; Ancillary Services costs were described in the 2014 IPR. Information about the spending levels in the IPR is publically available at <a href="http://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/Pages/IPR-2014.aspx">http://www.bpa.gov/Finance/FinancialPublicProcesses/IPR/Pages/IPR-2014.aspx</a>. The between business line program costs within Transmission Acquisition &amp; Ancillary Services costs reflect the BP-16 Generation Inputs and Transmission Ancillary and Control Area Services Rates Partial Settlement Agreement described in BP-16-E-BPA-13, pages 3-4. Depreciation costs are higher due to a large increase in Southern Intertie plant additions for the BP-16 rate period identified in BP-16-E-BPA-08A, page 32, sum Line 12, Column L and P. Forecast plant additions are derived from capital spending levels determined in the 2014 Integrated Program Review (IPR). The allocation methods used in developing the segmented revenue requirement are discussed in Chapter 2 of the Transmission Revenue Requirement Documentation, BP-16-E-BPA-08A. The changes in costs and in the allocation factors will account for any changes in the segmented revenue requirements.</p>
			<p>SUPPLEMENTAL RESPONSE FILED: 1/23/15</p> <p>On January 23, 2015, Powerex contacted BPA regarding several follow-on questions in response to BPA's response: (1) Starting with the August 13, 2014 workshop document that you reference, page 22. If I understand this correctly, if BPA had used the allocators shown on line 8, there would be no O&amp;M "error", as proposed in BP-16, correct? (2) Also on page 22, with the three different historical O&amp;M scenarios, are the data that reflect historical O&amp;M for FY 2009 the same for all three if the scenarios, i.e., FY 2007 – FY 2009; FY 2009 – FY 2011; and, FY 2007 – FY 2013? (3) Did BPA change its segmentation to any extent between FY 2007 and FY 2013, which would have impacted the segmentation of the O&amp;M costs? If so, what changes occurred? (4) Please provide a link to the referenced source materials, i.e., the preliminary 2012 rate case, the BP14 Final Segmentation Study? Also, please provide a link to the preliminary BP14 Segmentation Study. BPA responded: (1)Yes (2)–(3) BPA indicated that these questions were outside the scope of the original data request and response and were new data requests submitted after the data request deadline. BPA further indicated that these questions should have been directed to the segmentation panel. Regarding the second question, BPA suggested Powerex see BPA's response to IR-BPA-3. (4) The studies referenced in the workshop slides are all available on the rate case secure website for the BP-12 and BP-14 rate cases.</p>

## EXHIBIT 18

(Excerpt; Complete Presentation available at: [http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides\\_BP-16%20Rates%20\\_09-10-14.pdf](http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_09-10-14.pdf))

# BP-16 Transmission Rate Case Workshop

September 10, 2014



# Possible Adjustment for Error

- BPA appreciates all the comments submitted by customers.
- BPA has received comments from Snohomish and a coalition of IOUs, suggesting that BPA fix the error.
- In the BP-16 initial proposal BPA will propose to correct the error by adjusting the revenue requirement for the affected segments.

# BP-14 Error Correction

		A	B	C	D	E	F	G	H
		Total	Gen-Int	Network	So. Tie	East Tie	Util Deliv	DSI Deliv	SCD
<b>BP-14 published</b>									
1	Allocator for Lines	54,952	401	50,991	2,926	621	13	0	0
2	Allocator for Subs	57,752	1,126	44,236	10,242	316	1,300	532	0
3	Total	112,704	1,527	95,227	13,168	937	1,313	532	0
<b>BP-14 corrected</b>									
4	Allocator for Lines	26,559	209	24,687	1,413	246	4	0	0
5	Allocator for Subs	121,222	2,838	94,761	19,194	574	2,475	1,380	0
6	Total	147,781	3,047	119,448	20,607	820	2,479	1,380	0
<b>Requirement Deltas resulting from correction (\$MM):</b>									
7	Rev Req Δ (\$M)	\$0.0	+2.5	-9.3	+6.0	-1.0	+0.9	+1.0	.0
8	Δ after rate design	+0.0	+2.5	-8.5	+6.1	0	0	0	0

# Correcting BP-14 Error in BP-16

	BP-16 Rates (in Aug 13 model)		BP-16 Rates with Adj for BP-14 Error	
	Rate	% Change from BP-14	Rate	% Change from BP-14
FPT	\$ 1.682	6.1%	\$ 1.664	5.0%
IR	\$ 1.842	6.1%	\$ 1.823	5.0%
NT	\$ 1.823	4.7%	\$ 1.800	3.4%
PTP	\$ 1.543	4.3%	\$ 1.524	3.0%
IS	\$ 1.158	2.7%	\$ 1.236	9.6%
IM	\$ 0.598	0.0%	\$ 0.598	0.0%
UD	\$ 1.749	25.0%	\$ 1.749	25.0%
SCD (NT)	\$ 0.351	17.0%	\$ 0.351	17.0%
SCD (PTP)	\$ 0.299	16.3%	\$ 0.299	16.3%

# Cost Allocation

- BPA has received many comments on Tacoma's proposal and we appreciate all the comments submitted.
- We also appreciate Tacoma's proposal and their collaboration.
- After review of the comments, BPA has decided to continue with our current cost (12 NCP) allocation for the initial proposal.
- Customers have not presented any argument that would warrant a change in cost allocation method.
- The sales and allocation factors were presented at the July 23, workshop.
- The rates model was presented at the August 13, workshop.

## EXHIBIT 19

**Request ID: PX-BPA-11**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit:  BP-16-E-BPA-14  Page(s): 15 Line(s): 1-19	In BP-16-E-BPA-13 (Page 12, Lines 6-10), BPA states that the BP-14 error did not result in an under-recovery of transmission costs. Has BPA previously discovered errors after-the-fact in its calculation of rates when there was no cost under-recovery during the rate period in question? If so, please explain the error, when it was discovered, what rate(s) the error impacted, the magnitude of the error, and whether the error was corrected in subsequent rate periods.	Response Filed: 1/15/15  We are aware of one other error discovered after-the-fact that did not result in an under-recovery. In the FYI 2012-2015 rate periods, rates for Slice customers were lower than they should have been due to an error, with the difference made up in non-Slice customer rates. BPA is proposing to correct this error in the BP-16 rate case. See Chalier et al., BP-16-E-BPA-23, § 2. For technical questions about this response, please contact Rebecca Fredrickson by phone (360) 619-6156 and/or email <a href="mailto:refredrickson@bpa.gov">refredrickson@bpa.gov</a> . For all other questions, please contact Barry Bennett (503) 230-4053 and/or email <a href="mailto:bbennett@bpa.gov">bbennett@bpa.gov</a> .

## EXHIBIT 20

**Request ID: PX-BPA-9**

Request Date	Cite	Request Text	Response Text
1/13/15	Exhibit:  BP-16-E-BPA-07  Page(s): 52-53 Line(s): 16-3	Please provide the analysis that supports the statement: "However, BPA's current customer base is very similar to the customer base in the BP-14 rate period, minimizing any intergenerational inequity." In answering this question, please provide the analysis that demonstrates the similarity in the BP-14 and BP-16 customer bases for each of the three segments that will absorb the correction, i.e., the Generation Integration, Network, and Southern Intertie.	Response Filed: 1/16/15  Approximately 95% of BPA's long-term customer base, from which BPA derives the bulk of its transmission revenues, is expected to be the same in the BP-16 rate period as in the BP-14 rate period. The names of the customers who took service during the BP-14 rate period is attached. In addition, the forecast of customers expected to take service during the BP-16 rate period is shown in tables 13.1 to 14 in the Transmission Rates Study, BP-16-E-07, pages 117 to 198. For technical questions about this response, please contact Rebecca Fredrickson by phone (360) 619-6156 and/or email <a href="mailto:refredrickson@bpa.gov">refredrickson@bpa.gov</a> . For all other questions, please contact Barry Bennett by phone (503) 230-4059 and/or email <a href="mailto:bbennett@bpa.gov">bbennett@bpa.gov</a> .  Files Submitted for this Response: PX-BPA-09.xlsx [Attachment omitted from Exhibit]
			SUPPLEMENTAL RESPONSE Filed 1/22/15  Excel 97-2003 (.xls) version of the previously uploaded spreadsheet is attached for compatibility reasons. No other changes made.  Files Submitted for this Response: PX-BPA-09.xls [Attachment omitted from Exhibit]