

Credit Rating Reports

2008A & B Bonds

2-25-08

Credit Ratings

- Standard and Poor's – AA Stable Outlook
- Fitch Ratings – AA Positive Outlook
- Moody's Investor Svc. – Aa2 Stable Outlook

Notes:

S&P report issued 2-14-08

Fitch Ratings Press Release issued 2-15-08

Moody's rating communicated via e-mail 2-19-08

Fitch Ratings Highlights

- Credit Strengths
 - Refunding auction rate bonds
 - Low hydro costs
 - Competitive retail rates
 - Solid financial performance
 - Two hydro projects licensed with the third anticipated
 - Favorable PSE successor contract in place, Alcoa anticipated
 - Strategic plan to help mitigate wholesale risks (including moderate annual rate increases)

Fitch Ratings Highlights

- Credit Risks
 - License for RR not received yet
 - Varying hydrological conditions (volatility)
 - Reliance on wholesale revenues

Needed for AA+ Upgrade:

- RR license
- Maintain strong cash reserves
- Maintain financial protection measures
 - Control costs
 - Raise utility rates
 - Surcharges when needed
- Plan for future power sales portfolio

Why our credit rating is important

- Keeps capital costs low
- Access to capital
- Provides options during market turmoil

Why stick to the plan?

- 2007 was a great revenue year
- 2008 is forecasted to be another

Why should we be concerned?

Stress Scenarios

- Requested by rating agencies
- Major assumptions:
 - 85% Water
 - \$50 Power prices
 - Results for any year from 2008 to 2012

Stress Scenario Debt Coverage

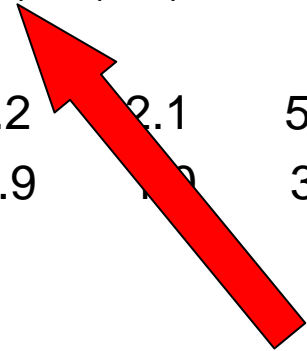
	<u>Requirement</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Senior	1.15x (w/ avail. funds)	29.8	14.4	8.8	7.7	60.1
	1.00x	6.6	(1.8)	(3.2)	(1.9)	28.5
Subordinate	1.25x (w/ avail. funds)	4.5	2.8	2.2	2.1	5.6
	1.00x	1.9	1.0	0.9	1.0	3.4

Notes:

1. No future rate increases included
2. Effects are not cumulative
3. Probability of occurrence in any one year = 10%
4. Probability of one occurrence in any three year series = 27.1%

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**45% Surcharge
needed to make this
1.0 cover!**

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Stress Scenario Debt Coverage

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Senior	1.15x (w/ avail. funds)	29.8	29.3	18.0	27.2	82.3
	1.00x	6.6	5.7	1.1	8.6	32.5
Subordinate	1.25x (w/ avail. funds)	4.5	4.4	3.2	4.2	7.3
	1.00x	1.9	1.8	1.4	2.2	3.7

Notes:

- 1. Future rate increases: 9% in 2009 and 9% in 2010**
- 2. Surcharge: 14% in 2010**
- 3. 2010 O&M held to 2009 level**
4. Rate increases are cumulative
5. Water and price effects are not cumulative

Conclusions

- The stress scenarios requested by the rating agencies are certainly within the realm of the possible
- Customers don't want large surcharges
- Rate increases need to be implemented annually to minimize future potential shocks