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POWER SERVICES

November 16, 2012

Announcement of Estimated Maximum Amount of Aggregate Payments BPA will Accept for the 2012 Prepayment Program

Background

The Bonneville Power Administration (“BPA”) issued a Request for Offers for Prepayment of Electricity (“RFO”) on August 14, 2012, soliciting offers from BPA’s preference customers to prepay for electricity purchased from BPA pursuant to their existing power sales agreements (“PSAs”) with BPA. BPA subsequently amended the RFO on October 5, 2012, November 2, 2012, and November 15, 2012. On October 9, 2012, BPA issued its Agency Record of Decision (ROD) on the program. The RFO, as amended, and the ROD can be found at the following link: <http://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Power-Financing-Program.aspx>.

Paragraph 2(c)(ii) of the RFO states that BPA will announce not later than November 16, 2012 *an estimate* of the maximum aggregate dollar amount of Prepayments that BPA will accept under the 2012 Prepayment Program solicitation. This posting serves to provide such notice and outline BPA’s rationale.

BPA’s Estimate of Maximum Aggregate Payments

BPA estimates that the maximum aggregate dollar amount it would consider accepting for the 2012 Prepayment Program solicitation is \$700 million.

Rationale

Paragraph 2 (c)(ii) of the RFO states, “The expected aggregate amount of Prepayments accepted by BPA (as of the date accepted by BPA, and without taking into account Market Rate Adjustments, as described herein) will not exceed (A) BPA’s estimated capital expenditures for federally-owned hydroelectric facilities of the Federal Columbia River Power System in Fiscal Years 2014-2015 as set forth in the Integrated Program Review for BPA’s Fiscal Year 2014-2015 Power Rate Case, plus (B) BPA’s actual capital expenditures for such hydroelectric facilities to the extent they were funded in Fiscal Year 2013 from cash reserves in the Bonneville Power Administration Fund in anticipation of later borrowings from the United States Treasury (BPA frequently refers to this practice as “deferred borrowing”). BPA expects that the aggregate Prepayments (defined below) it would accept could be in the range of \$300 million to \$600 million under this RFO.”

On page 64 of the [Final IPR Close Out Report](#), dated October 26, 2012, BPA concluded that Federal Hydro Capital Spending will be similar to the IPR Capital Spending Estimates posted on June 18, 2012. These amounts are shown in the table below.

Total Lapsed Capital - Final IPR				
	2013	2014	2015	Total
Hydro	248	248	248	745

In addition, as part of the **Draft Access to Capital Strategy**, BPA committed to perform additional rate analysis if BPA contemplated accepting more than \$500 million. BPA has determined that a 2012 Prepayment Program sized at \$700 million would generate more of a rate benefit than a program sized at \$500 million because Federal interest would decline more in a \$700 million program scenario than it would in a \$500 million program scenario, as shown in the table below. Additionally, BPA's revenue requirement generates enough cash to absorb the higher revenue credits and in periods when Power Services is expected to generate significant revenue, a \$700 million program produces more of a benefit than a smaller program capped at \$500 million.

Potential Prepay Size- Changes from Base Case							
	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
\$500M *	0.0%	0.5%	(0.3%)	(0.2%)	(0.3%)	0.6%	1.6%
\$700M	0.0%	0.5%	(0.5%)	(0.3%)	(0.6%)	0.3%	1.6%

* as shown in the Access to Capital Workshop: July 26, 2012 (page 24)