

Bonneville Power Administration

Rate Case Workshop with Customers

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

-Revised on Feb. 26, 2003



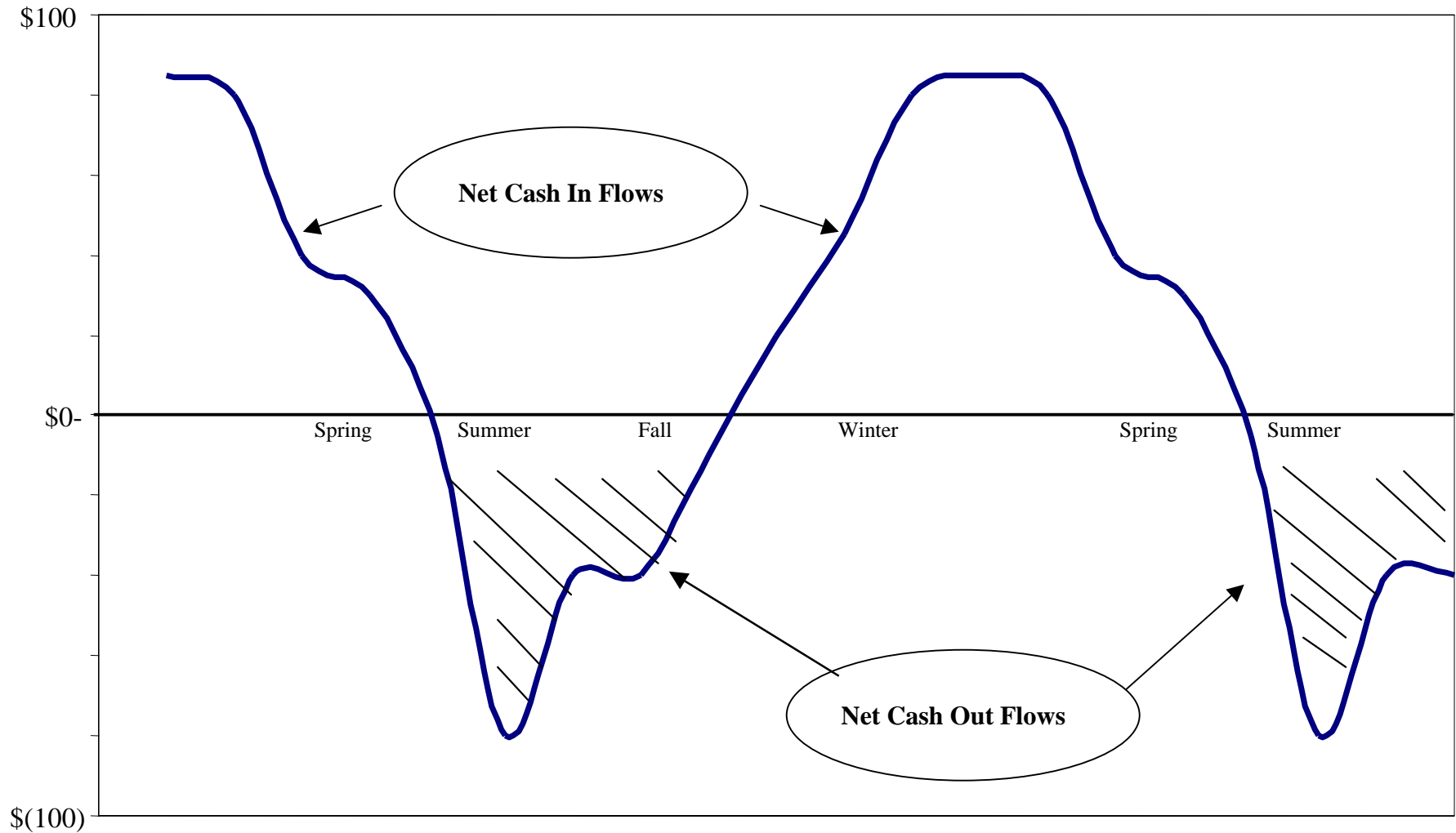
Topics to be Covered Today

- 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
■ Total	~\$532
<i>Estimated Annual Impact 2007-11</i>	<i>~\$70 to \$85</i>

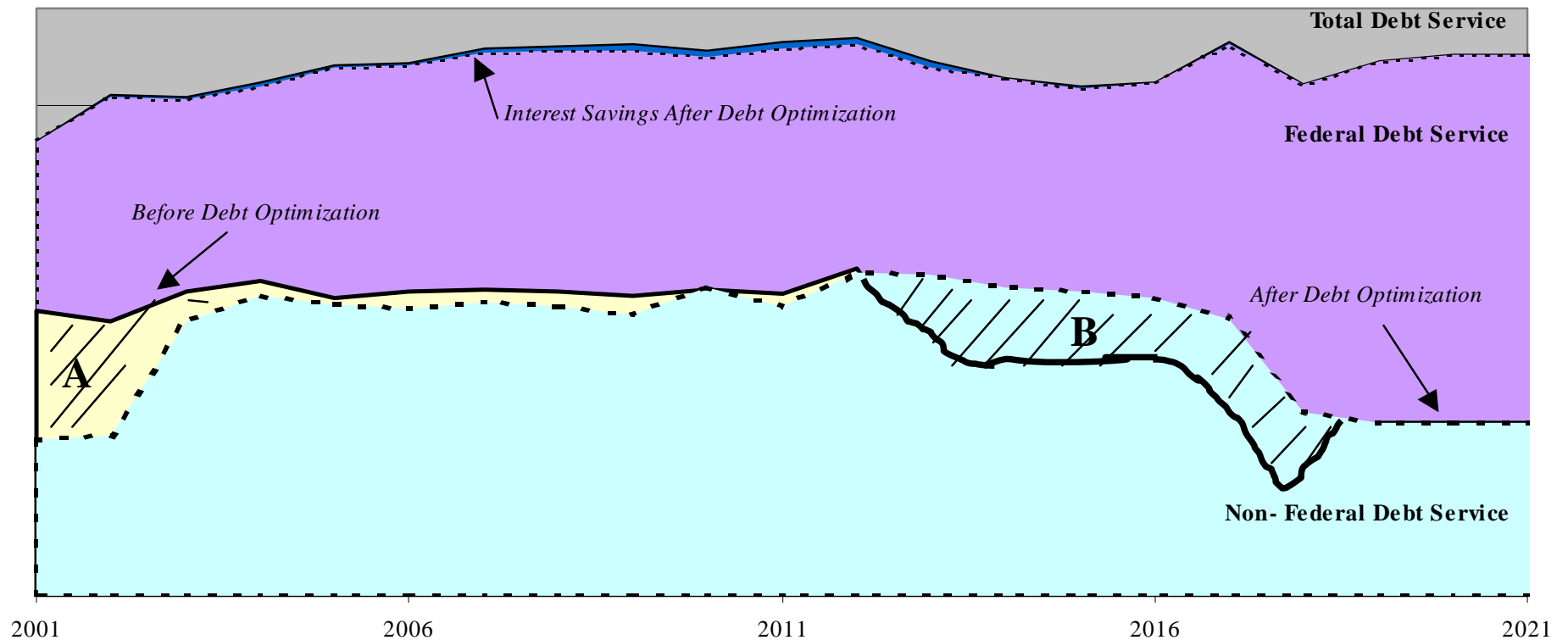
These changes will create upward pressure on rates starting in 2004, but having the biggest effect in 2007 and beyond.



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

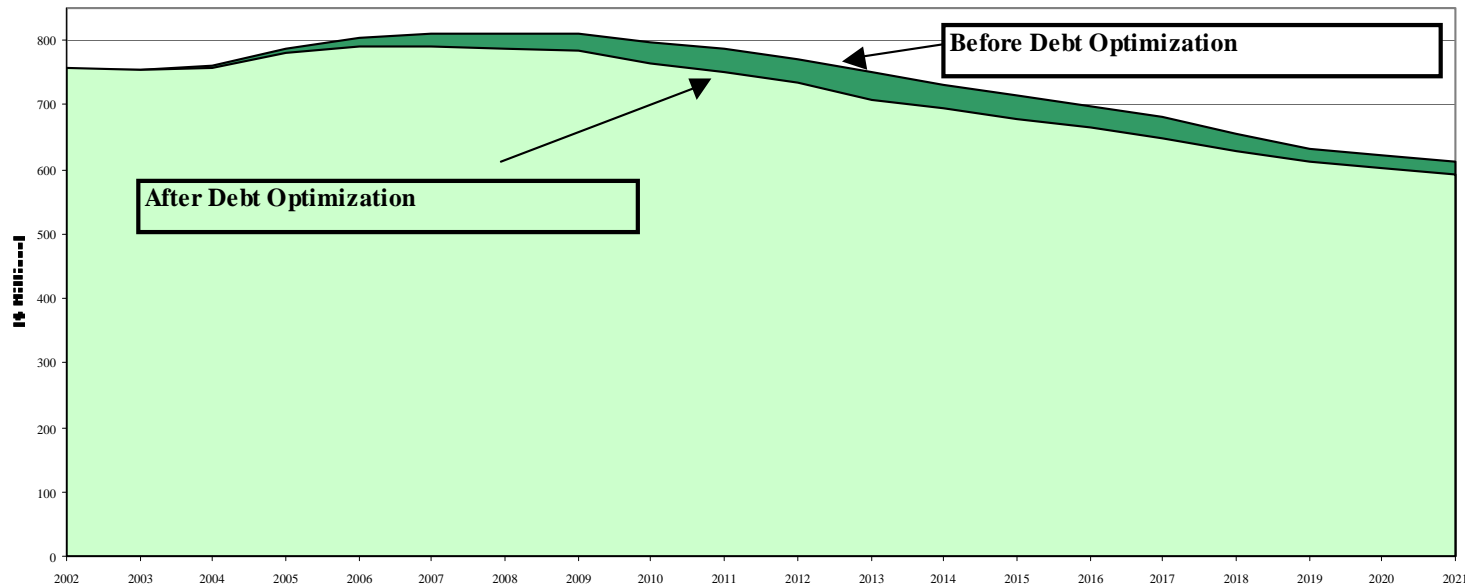


Benefits of Debt Optimization: Replenish borrowing authority by up to \$3.2 billion through 2012 while keeping BPA’s overall debt level the same.



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

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