## Defer Pre-payment of Federal Debt associated with Debt Optimization

(note that the quotes below are from BPA's August 11, 2005 handout "Risk Mitigation for the FY 2007 – 2009 Rate Period Liquidity Issues" Page 2)

**What it does:**

"BPA would hold cash arising from that year's Debt Optimization refinancing to defer prepaying Treasury obligations until December".

**How does it work**

At present when BPA obtains cash as a result of the DOP those funds are sent to the U.S. Treasury at the end of September when BPA makes its regularly scheduled Treasury payments. Under this option, BPA would hold the funds that are to be used for pre-payment (payments in excess of scheduled amortization) until December. This would aid BPA's cash flow since the net billing payments to EN would have been largely completed by this time and funds would be flowing to BPA at a much higher level.

**When do we trigger it and how?**

- Could occur as needed each year, assuming the DOP continues

**Who do we have to have agreements with to use the tool?**

- EN Executive board
- BPA

**How much money does it give BPA by the end of September to help with the Treasury payment?**

- "Could provide as much as $200 million in liquidity depending on the year."

**What does it cost to use? Dollar cost, political cost?**

- EN board members have indicated willingness to help on risk mitigation
- The December 11, 2000 letter agreement that describes the DOP to ENW states, "You have BPA's commitment that this increased amortization will equal the reduction in BPA's net billing obligation resulting from debt management actions under this program on an annual basis. Only under extreme financial pressure would BPA consider deviating from the actions required to implement this program." It seems that this statement from Steve Wright would allow for this option.

**Ease of Use**

- Easy to use – only effective as long as DOP continues.

**Who pays? How is the cost of using this tool recovered?**

- This is a low cost/no cost tool.

**Is there a discount to the customer if the money comes from the customer?**

- Not applicable

**What is the critical mass? How many entities/utilities have to participate to make this work**

- EN board approval required
- BPA general counsel agreement needed

**When will we know if we can use the tool? That is, will we know before the Initial Proposal or Final Proposal?**

- Need to discuss with ENW board and members
- Would need to know outcome of Slice customer litigation
- Most likely we will know if the tool is available after the Initial Proposal but in time for the Final Proposal,

**Challenges/Issues/Problems with the use of this tool and how do we plan to resolve these?**

- EN approval is needed
- Have to resolve the issue of how this would be dealt with in the Slice True-up
- BPA does not have the ability to defer payments for short periods of time; rather it can defer for longer periods. "A substantial portion of the Treasury prepayment candidates are maturing obligations in the form of bonds that can be rolled for a minimum 3 year period, if necessary. There is currently no capability to roll bonds out for 3 to 6 months." Following is a table of anticipated payments on non maturing federal debt associated with debt optimization

**Expected non maturing federal debt payments ($millions)**
*subject to change*

| | Generation | Transmission | Total |
|---|---|---|---|
| **FY06** | $58 | $19 | $77 |
| **FY07** | $103 | $19 | $122 |
| **FY08** | $222 | 0 | $222 |
| | $383 | $38 | |

- Would need to understand whether transmission debt payments should be included.
- This tool is limited by the amount of non maturing debt expected to be paid as part of the DOP in each year. The program is currently planned to end in 2008.
- "Would require forecasting and committing to levels of Treasury debt prepayments that might not be achievable if debt optimization does not proceed as expected."
- Would have to be disclosed in future Official Statements
- Not sure how rating agencies would view this.

**Other Benefits to the use of this tool**

**Bottom line: Is this tool viable?**

- Yes, this is a viable tool

**Next steps/Summary check list of things that need to be done to get the tool into place**

- BPA will explore alternative ways to characterize this in rates.
- BPA will explore the rate effects, including Slice.
- Discuss alternatives with EN staff.
- Meet with EN Board Members and prepare EN Board resolution for approval

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# Shape IOU Residential Exchange Benefits Payments

## What it does

This would increase Agency cash liquidity during the first few months of a fiscal year by deferring payment of the IOU Residential Exchange benefits until later in the year.

## How does it work

The IOUs would agree to amend their Settlement Agreements to allow BPA to request that they defer payment of the initial 3 to 6 months of the Residential Exchange Benefit payments in a given fiscal year.

For the FY 07 to FY 09 rate period, the IOUs have agreed to accept benefits ranging from $100M to $300M per year based on the difference between an independently-established Forward Flat Block Price and the PF rate times the 2200 aMW of IOU residential and small farm load load. Absent any deferrals, these benefits are to be paid in twelve equal monthly installments. If the IOU deferral tool is triggered (e.g. BPA requests a deferral), then the IOUs would agree to defer payment of their benefits for up to 3 (or 6) months, after which time, the monthly installments would begin, but at a higher prorated level so that the total amount of benefits due the IOUs would be paid during the remainder of the fiscal year.

## When do we trigger it and how?

BPA could request that the IOUs defer their payments based on a set of predetermined circumstances that signal the Agency needs additional liquidity in the first few months of its fiscal year (e.g. due to secondary revenues that are below forecasts due to bad water, increased market purchases, unexpectedly low power sales market prices etc.).

## Who do we have to have agreements with to use the tool?

- The six IOUs involved in the program, all IOU's don't have to participate
- BPA
- All public utilities would have to agree in writing not to sue BPA for aspects of the IOU settlement agreement

## What other approvals needed?

- None

## How much liquidity does it give BPA early in its fiscal year?

- In the first year implemented, depending on the level of benefits due the IOUs, from between $8M to $25M per month of deferral provided all IOU's participate ($25M to $75M for a 3 month deferral).

## What does it cost to develop/use? Dollar cost, political cost?

- Minimal costs involved.

**Ease of Use**

- Easy to use.

**Who pays? How is the cost of using this tool recovered?**

- This is a low cost tool

**Is there a discount to the customer if the money comes from the customer?**

- IOUs may demand that the Agency compensate them for the deferral by paying interest on the deferred balance. At a 4% interest rate this could range from $$70K to $375K for a 3 month deferral of benefits

**What is the critical mass? How many entities/utilities have to participate to make this work**

- In order to make this a viable tool, at a minimum, Pacificorp and Puget would need to participate
- BPA general approval
- All public utilities, would have to agree not to contest this or to sue BPA

**When will we know if we can use the tool? That is, will we know before the Initial Proposal or Final Proposal?**

- Need to execute agreements with IOUs
- Need written agreement by customers not to contest
- These agreements will not be in place for the Initial Proposal

**Challenges/Issues/Problems with the use of this tool and how do we plan to resolve these?**

- Reaching agreement with customers

**Other Benefits to the use of this tool**

- Would reduce the need to increase liquidity through PNRR

**Bottom line: Is this tool viable?**

- Yes, this appears to be a viable tool

**Next steps/Summary check list of things that need to be done to get the tool into place**

- Resolution of this issue by customers required
- BPA and IOUs negotiate and sign the deferral agreements

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## BPA Direct Payment of Energy Northwest Expenses

(Employ an arrangement whereby EN cash needs are met by a direct payment commitment of BPA, which could serve to offset net billing.)

### What it does

BPA would negotiate a formal agreement to provide cash flow support to Energy Northwest (EN) for WNP -1 & 3 and the CGS.

### How does it work

Under the net billing agreements, the amount to be net billed is determined by EN by forecasting costs for a contract year and deducting "amounts payable from sources other than the Net Billing Agreements." That net amount is allocated among the participants for payment to EN in accordance with their respective percentage participation in the projects.

In an overlaying agreement to the Net Billing Agreements, BPA would commit to provide cash to EN on a current basis to cover all net billed project costs (including both O&M expenses and deposits into bond repayment funds) as budgeted under the net billing agreements.

In establishing the net billed budgets, EN would look to the direct BPA payment stream as "an amount payable from sources other than the Net Billing Agreements" and render the net billable amount to zero. The effect of the direct payment agreement would be to zero out the amount to be net billed during the term of the direct payment agreement.

### When do we trigger it and how?

- Could have a term through the rate period or could occur on an as needed basis year-to-year.

### Who do we have to have agreements with to use the tool?

- EN
- BPA

### What other approvals needed?

- BPA would need comfort from bond counsel and other attorneys involved in the refunding program that such a transaction does not violate the net billing agreements or otherwise constitute a default under the related bond resolutions.
- IRS letter ruling that the agreement, at least to the extent that it funds debt service on tax-exempt bonds, does not constitute an impermissible Federal guarantee under the Tax Code. (The tax ruling would assure that the direct payment arrangement would have no adverse tax consequences to current and future ENW net billed bonds.)

**How much money does it give BPA by the end of September to help with the Treasury payment?**

- In the year implemented, it could provide about $200 million of liquidity prior to September 30, if the agreement is used to fund all EN net billed project costs. Could provide about $40 million on Sept 30 of the first year implemented if the agreement covers Operations and Maintenance expenses only

**What does it cost to develop/use? Dollar cost, political cost?**

- EN board members and staff have indicated willingness to help on risk mitigation
- Does not involve third party financing, so Treasury should not have concerns
- Staff time to draft, bond attorney time to review and write disclosure
- Tax ruling request will cost about $70k

**Ease of Use**

- Easy to use once agreements are in place.

**Who pays? How is the cost of using this tool recovered?**

- This is a low cost tool.

**Is there a discount to the customer if the money comes from the customer?**

- Not applicable

**What is the critical mass? How many entities/utilities have to participate to make this work**

- EN board approval required
- BPA general approval
- Assurance that there are no adverse consequence on the existing and future EN bonds (bond and other counsel approval) need underwriter and rating agency input
- To get full impact, need IRS letter ruling

**When will we know if we can use the tool? That is, will we know before the Initial Proposal or Final Proposal?**

- Need to discuss with EN board, staff and members, and BPA staff.
- IRS letter ruling could take a year from filing—filing will take one month to prepare. An expedited ruling could take less than 6 months. No guarantee that the IRS would agree to an expedited ruling.
- Some prospect that we will know if we can fully use this tool before the Final Proposal

**Challenges/Issues/Problems with the use of this tool and how do we plan to resolve these?**

- EN approval is needed
- Have to understand how this would effect the Slice revenue requirement.
- Bondholders may view this change unfavorably. BPA/EN would likely need to have some investor meetings/discussions

**Other Benefits to the use of this tool**

- Could complement customer surcharge proposal
- Has potential to enhance or reduce the likelihood of other CRAC type mechanisms

**Bottom line: Is this tool viable?**

- Yes, this appears to be a viable tool—subject to close examination by bond lawyers

**Next steps/Summary check list of things that need to be done to get the tool into place**

- Obtain Bond Counsel review
- Meet with EN Board Members and staff
- Prepare and file IRS letter ruling request
- Draft direct payment agreement documents for O&M and debt service

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