Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

NOV 0 5 2018

Mr. Brad Sawatzke, Chief Executive Officer
Energy Northwest
P.O. Box 968
Richland, WA 99352-0968

Dear Brad:

The Bonneville Power Administration (BPA) and Energy Northwest have worked together closely as public power partners for many years. One of the leading examples of this partnership is the coordinated management of the debt issued by Energy Northwest under the net-billing arrangements, which has provided enormous financial value to the region for more than 30 years. These mutually-supported debt management actions have reduced pressure on BPA's rates innumerable times.

The close association between our two organizations in matters of debt management has also provided extensive relief for the constrained capital funding that BPA and the region face, given BPA's limited access to United States Treasury borrowing capacity. The collaborative efforts of the Debt Optimization Program and the current regional cooperation debt initiative are expected to restore as much as $4 billion in BPA federal borrowing capacity and save the region more than $2.6 billion in interest costs. The replenishment of the federal borrowing capacity has led, and will continue to lead, to the funding of essential Federal System capital.

Most recently, our financing staffs have brought forward another refinancing proposal for the issuance of up to $3.5 billion of low-cost, long-term tax-exempt debt. This opportunity involves the issuance of Energy Northwest's net-billed tax-exempt debt and 1) the early repayment or retirement of BPA's United States Treasury bond obligations or 2) the funding of new capital projects. The proposal also brings the potential to reduce BPA's access to capital shortfall, which the region has faced since the early 1990s.

Reducing near-term rates will assist BPA in maintaining its position as a low-cost power supply choice for the region and to fulfill its statutory directive to operate consistent with sound business principles.

BPA's recently adopted financial plan establishes a guiding framework for our future as we work to improve our financial health. Lowering the debt to asset ratio for each business line until a sustainable and fiscally responsible level is reached and maintained is integral to achieving the goals outlined in the financial plan. BPA will also create a healthy $1.5 billion buffer of available borrowing authority capacity to ensure financial wellness. The proposal to extend the regional cooperation debt will help us move toward this financially healthy position.

In great part because of your leadership and collaborative approach, our shared stakeholder base in the region has reached a core level of awareness and support for the proposal. Getting to this point has not been easy. Understanding the potential value of the proposal involves continuing to build an understanding of the inter-relationships among BPA's overall debt service obligations, Energy Northwest's net-billed project debt service obligations, and BPA's rates. It also involves an acceptance of managing all debt obligations borne by ratepayers through BPA's rates on an integrated, optimized basis. In this sense the term regional cooperation debt, which Energy Northwest coined years ago, accurately reflects the fundamental principle that Energy Northwest net billed debt is used for the regions' benefit and recovered from regional users of the federal power system in BPA's rates. The daunting amounts at issue, and the earnestly held expectations about the wisdom of paying off Projects 1 and 3 debt as previously scheduled, have made the outreach and education process even more challenging. Your efforts in this process have been exemplary.

I believe that most regional parties understand and appreciate the underlying soundness of the BPA Strategic and Financial plans and this proposal to meet BPA's 10 Year Capital Financing plan. Furthermore, no parties have raised substantial concerns that we have not ourselves identified and fully addressed. We now have the level of regional support needed to proceed with the next phase of executing the issuance of regional cooperation debt.

To help move things forward, you asked us to document the key elements associated with implementing the proposal. The attached term sheet outlines our proposed process for proceeding with this important opportunity.

Our joint efforts coupled with sound, flexible financial management will ensure economic value for the region and continue to provide for adequate operations and maintenance and capital investment funding at Columbia to support continued safe, reliable, and cost-effective operation.

It is our expectation that our shared spirit of collaborative action in the best interests of the region will continue to advance the regional cooperation debt issuances as we move toward implementation in 2021. We look forward to successful execution of the opportunity and I thank you and your staff for all of the insight and hard work that Energy Northwest has provided in bringing us to this point.

Sincerely,

Thanks again for your very strong partnership!

Elliot E. Mainzer
Administrator and Chief Executive Officer

Enclosure:
Regional Cooperation Debt - Term Sheet

Regional Cooperation Debt – Term Sheet

Regional Cooperation Debt Initiative

In order to preserve BPA's lowest cost non-federal access to capital to create additional value for Northwest ratepayers, Energy Northwest and BPA have considered a proposal to refinance regional debt that is currently backed by BPA and paid by the region's ratepayers through BPA's rates.

The issuance of up to $3.5 billion of low-cost, long-term tax-exempt debt on Energy Northwest's Columbia Generating Station as well as Projects 1 and 3 would allow BPA to use the freed up revenues for either the early payment of federal repayment bonds or to directly fund BPA capital investments. Approximately $3 billion of the $3.5 billion bond issuance would refinance existing bond maturities currently in Energy Northwest's fiscal years 2021-2030. Energy Northwest and BPA have also agreed to expand the regional cooperation debt initiative beyond the extension of debt principal payments. Energy Northwest and BPA estimate that Energy Northwest could issue up to $500 million of long-term tax-exempt debt during fiscal years 2021-2030 to fund a portion of the interest expense payments related to certain outstanding bonds. As a result of Energy Northwest issuing premium bonds historically, Energy Northwest's outstanding principal has been decreasing and a portion is becoming interest expense. This original issuance premium that is amortized as interest expense over the life of the bond can be refunded on a tax-exempt basis. In total, this proposal includes support for $3.5 billion of long-term tax-exempt regional cooperation debt issuance plus any applicable taxable cost of issuance.

Regional Perspective – Energy Northwest and BPA have worked closely together to establish and implement a broad view of Energy Northwest's debt portfolio as a crucial tool for providing the region with prudent, long-term value. That value can be gained only through a coordinated approach that integrates Energy Northwest debt management and BPA federal debt management.

Key Points

- Energy Northwest's Executive Board must approve every bond transaction; approval will be considered on a case-by-case basis.
- There is no distinction between BPA and Energy Northwest debt in terms of how it is reflected in regional ratepayers' rates monthly bills. It may be necessary to reconsider this point if the Direct Payment Agreements are suspended and the Net Billing process resumes.
- All Columbia Generating Station, Project 1, and Project 3 debt issued under this initiative will be reflected where practical and germane as "Regional Cooperation Debt."
- Bonds issued will not have maturities beyond July 1, 2044.
- Sustainability and Continuity
  - BPA will provide annually to Energy Northwest information on BPA's financial operations with respect to regional cooperation debt refinancing and address the following either in a presentation or in an appendix tothe presentation:
    - Debt Management Actions (Report on past and upcoming regional cooperation debt transactions)
    - BPA strategic and financial plan metrics to include:
      - Access to capital ($1.5 billion of United States Treasury borrowing capacity)
      - Days liquidity on hand (Goal of 60 days cash on hand per business line)
      - BPA's budgets
        - Rate Case
        - Start of Year
        - Current Forecast

        - Trajectory of debt-to-asset ratio
    - Planned action to include revenue financing of capital investments in current or upcoming rate periods for the purpose of access to capital (including early repayment of debt for the purposes of access to capital) by business line.
    - Transparent reporting of repayment obligation between Power and Transmission rates for Regional Cooperation Debt transactions. This information may be maintained and provided through BPA's website.

- Revenues freed up from Energy Northwest's Columbia, Project 1, and Project 3 tax-exempt regional cooperation debt issuance not related to Energy Northwest's Columbia capital needs will be used to repay within a reasonable period of time an equal amount of federal debt or be used to directly fund BPA capital investments. Any deviation from these uses of freed up revenues would be structured in a manner that provides the most overall benefit to the region, as determined through a public process involving BPA customers.

- A *"Regional Check In"* is expected to occur in late calendar year 2025; BPA commits to a regional update with stakeholders including Energy Northwest Participant's Review Board, Executive Board, and a regional public meeting. The update is expected to address the status of the program and the benefits derived including the regional cooperation debt transactions' impact on BPA's financial health.

bcc:
S. Simms – DK-7
M. Manary – F-2
J. Dull – FT-2
A. Switzer – FTR-2
M. Jensen – L-7
R. Roberts – LG-7
J. Cook – P-6
R. Shaheen – T-DITT-2
Adm. Chron. File – A-7 (SS-11-11)
Office of Record – F