

*Customer Collaborative
Discussion Packet*

Debt Optimization

September 9, 2004

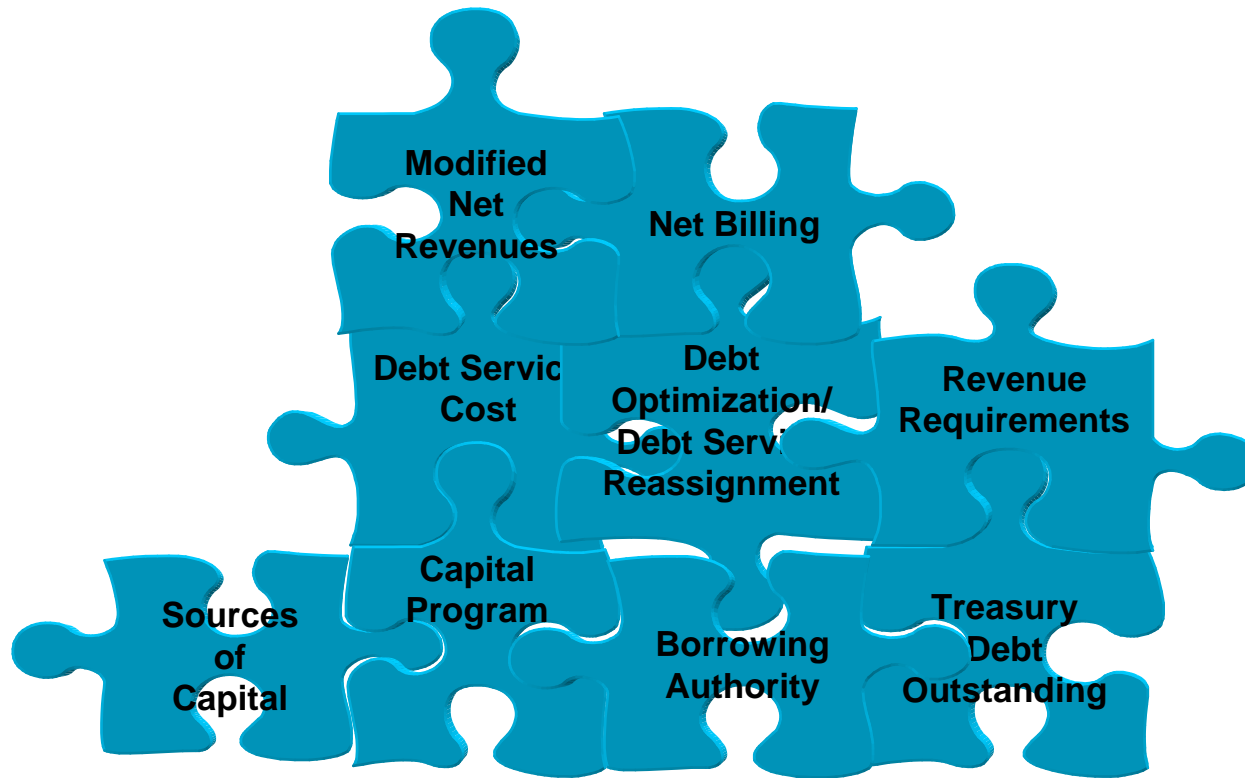
- Provide a high level overview of the debt optimization program
 - By explaining the debt optimization program as designed
and
 - By assuming currently-forecasted capital program levels previously discussed.
- Hear from Customer Collaborative subgroup members about their debt optimization understanding and perceptions. Members dedicated over 15 hours to reviewing the program.

Debt Optimization: Background

- In FY 1999, BPA determined that, within a few years, it would exceed its Treasury borrowing cap and lose access to its most reliable source of funding.
- BPA decided it was prudent to consider alternative methods of financing its capital-intensive business.
- Rates are set to recover costs (including debt service on outstanding obligations) and the costs of future capital programs.
- The **debt optimization program** was designed as the least cost alternative for maintaining continued access to Treasury borrowing.
- The debt optimization program relies on Energy Northwest's annual participation and approval.
- In FY 2002, BPA expanded the program through **debt service reassignment** (DSR) to include the transmission business line.
- Debt service reassignment results in the cost of the new Energy Northwest debt being assigned to transmission, not power. In exchange for this reassignment, additional Treasury payments are made, which then result in greater Treasury borrowing authority being available to transmission.

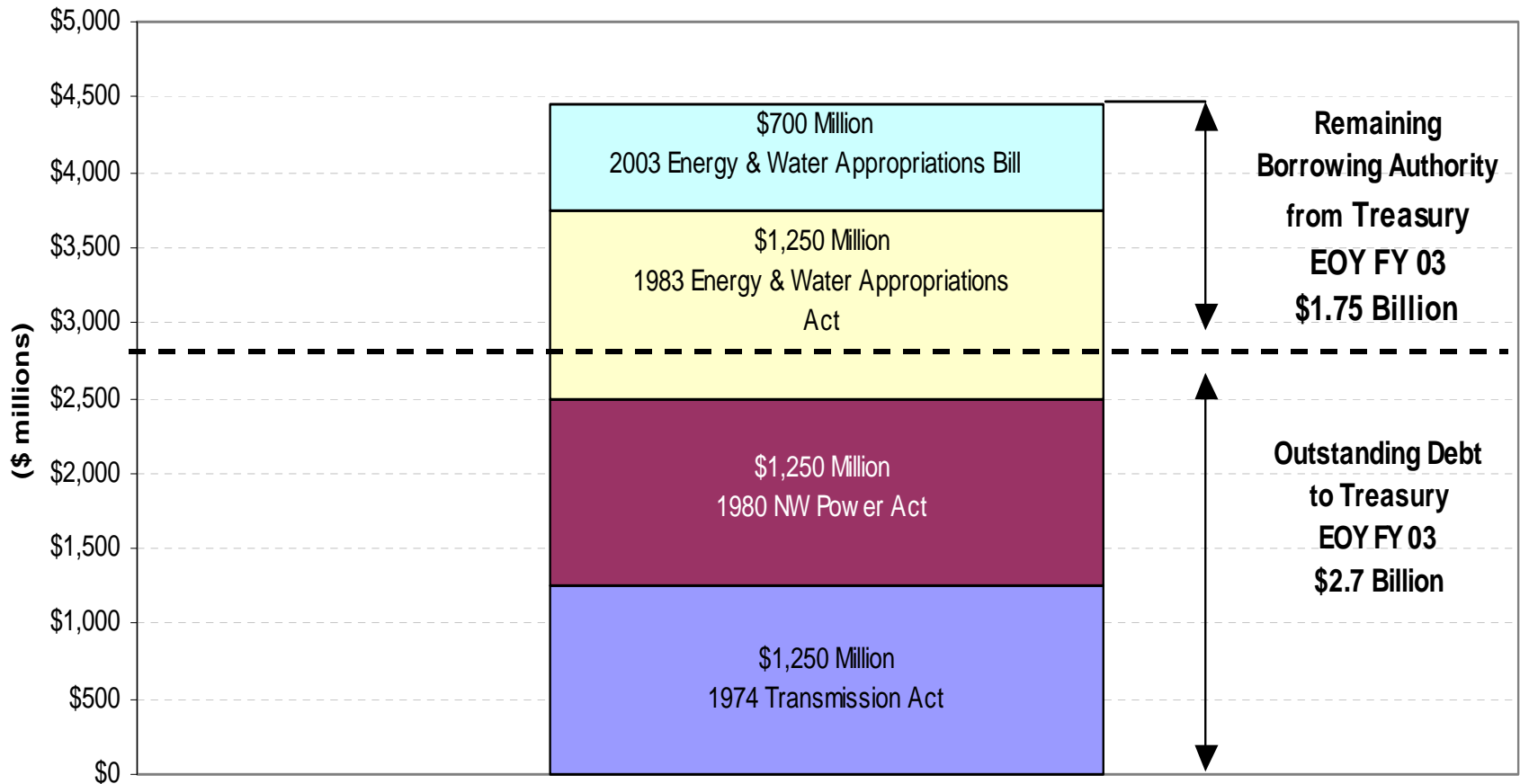
Debt Optimization: Overview

- Debt optimization is linked to many familiar BPA areas



U.S. Treasury Source of Capital

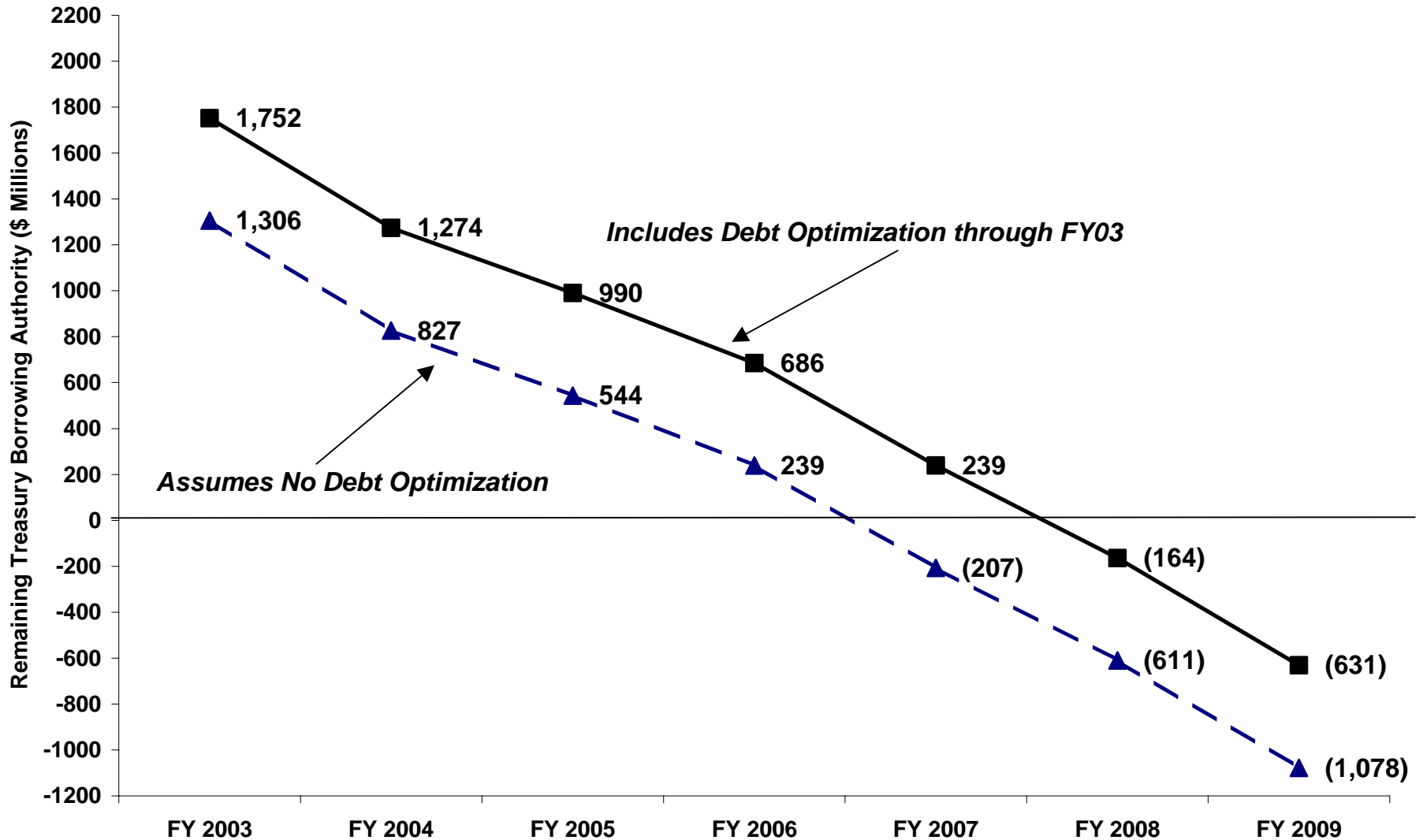
\$4.45 Billion Permanent Authority



Bonneville Treasury Borrowing Authority

This information has been made publicly available by BPA on September 9, 2004, and is consistent with the 2003 Annual Report released in December 2003 and contains Agency-approved Financial Information.

Debt Optimization Preserves BPA Treasury Borrowing

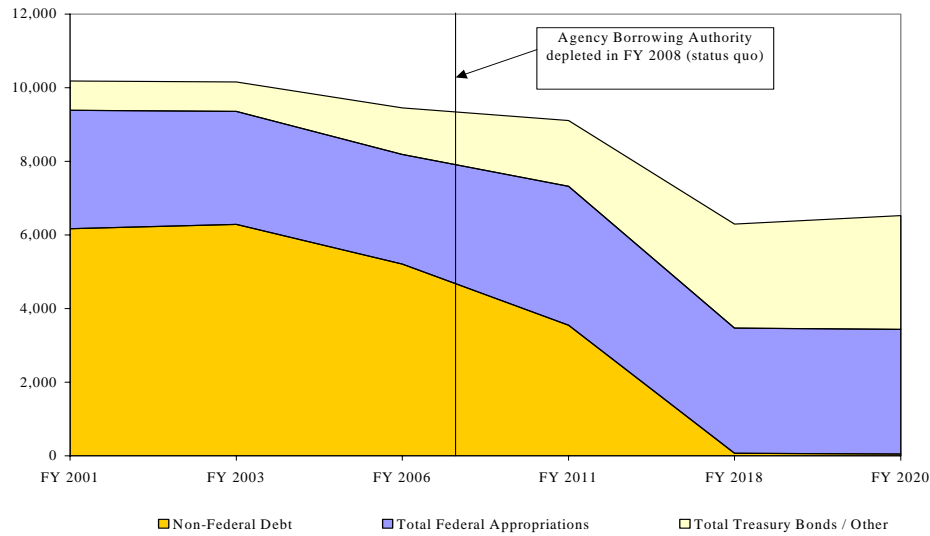


The information on the solid line has been made publicly available by BPA on August 3, 2004, and is consistent with the FY 2005 Congressional Budget Submission released in February 2004 and contains Agency-approved Financial Information. The information on the dotted line is based on subtracting the effects of Debt Optimization from the solid line, and has been made publicly available by BPA on September 9, 2004 and does not contain Agency-approved Financial Information.

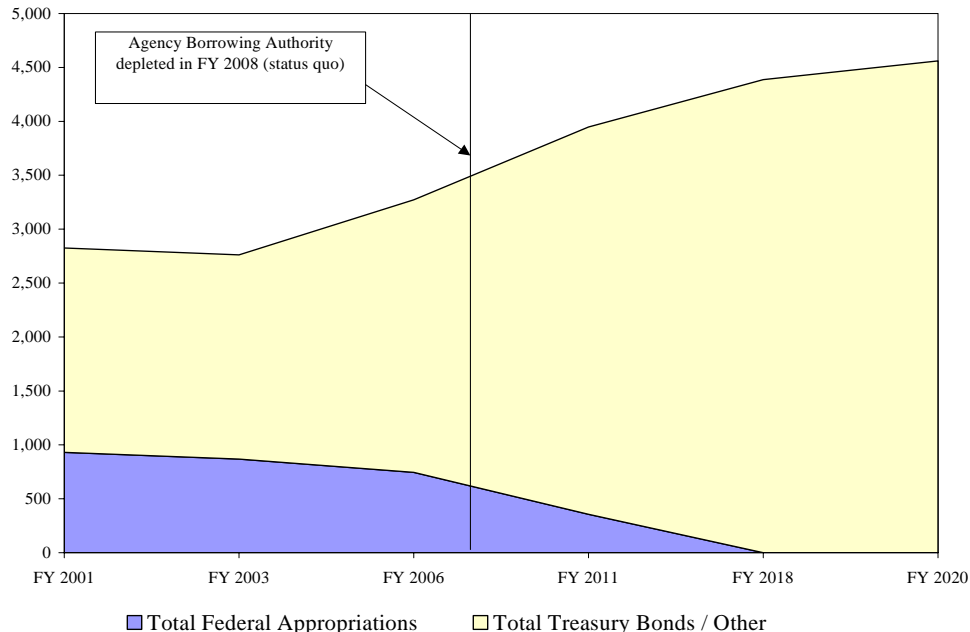
For illustrative purposes only.

BPA's Continuing Capital Program Translates to an Ongoing Need for Low Cost Financing

Generation Obligations are projected to decrease by almost \$.74 billion, or 7.5% by FY 2011



Transmission Obligations are projected to grow by over \$1.2 billion, or 39%, by FY 2011



BPA has four potential methods for managing long-term capital needs:

- 3rd party financing
- Revenue financing
- Cut or stretch out capital programs
- Seek additional Treasury borrowing authority

Debt optimization has never been a long-term method to access capital.

This information has been made publicly available by BPA on June 30, 2004 and does not contain BPA-approved Agency Financial Information

BPA's Continuing Capital Program Translates to an Ongoing Need for Low Cost Financing

CAPITAL INVESTMENTS

(in millions of dollars)

Actuals

Estimates

Fiscal Year	Actuals				Estimates					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Conservation & Energy Efficiency	0	0	29	25	30	36	32	32	32	32
Transmission Business Line	116	183	259	319	386	269	222	331	409	386
Associated Project Cost - Capital*	33	65	73	99	111	116	119	133	145	137
Fish & Wildlife	14	17	6	12	36	36	36	36	36	36
Capital Equipment	26	17	22	19	31	27	22	23	23	23
Capitalized Bond Premiums	4	0	0	0	3	3	3	3	3	3
TOTAL CAPITAL	193	282	389	473	598	487	435	558	648	617

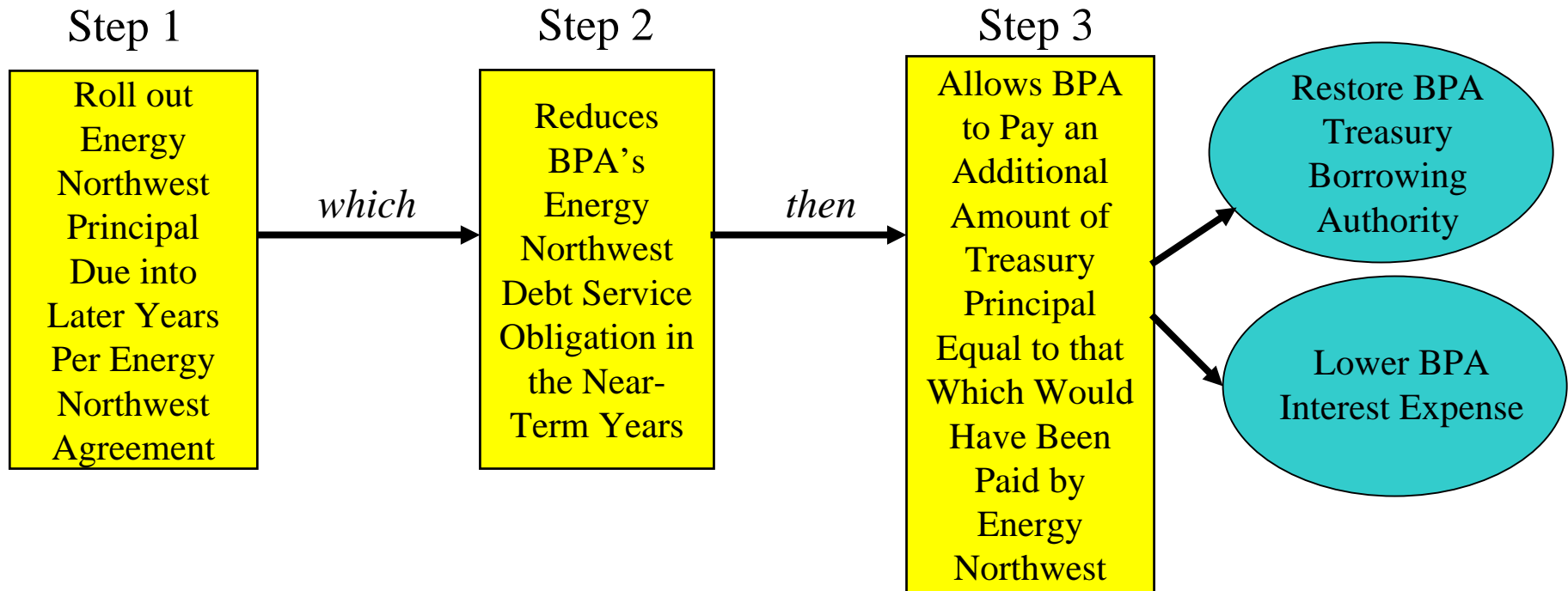
* "Associated Project Cost - Capital" refers to Corps of Engineers and Bureau of Reclamation capital expenditures.

FYs 2000-2002 data is un-audited and has been made publicly available by BPA, consistent with BPA Congressional Budget Submissions for FYs 2002 (released Feb. 2001), 2003 (released Feb. 2002) and 2004 (released Feb. 2003), respectively. FY 2003 data is audited and FYs 2004-2009 data includes estimates based on information made publicly available by BPA in Feb. 2004, consistent with the FY 2005 Congressional Budget Submission.

Federal Debt Repayment Principles

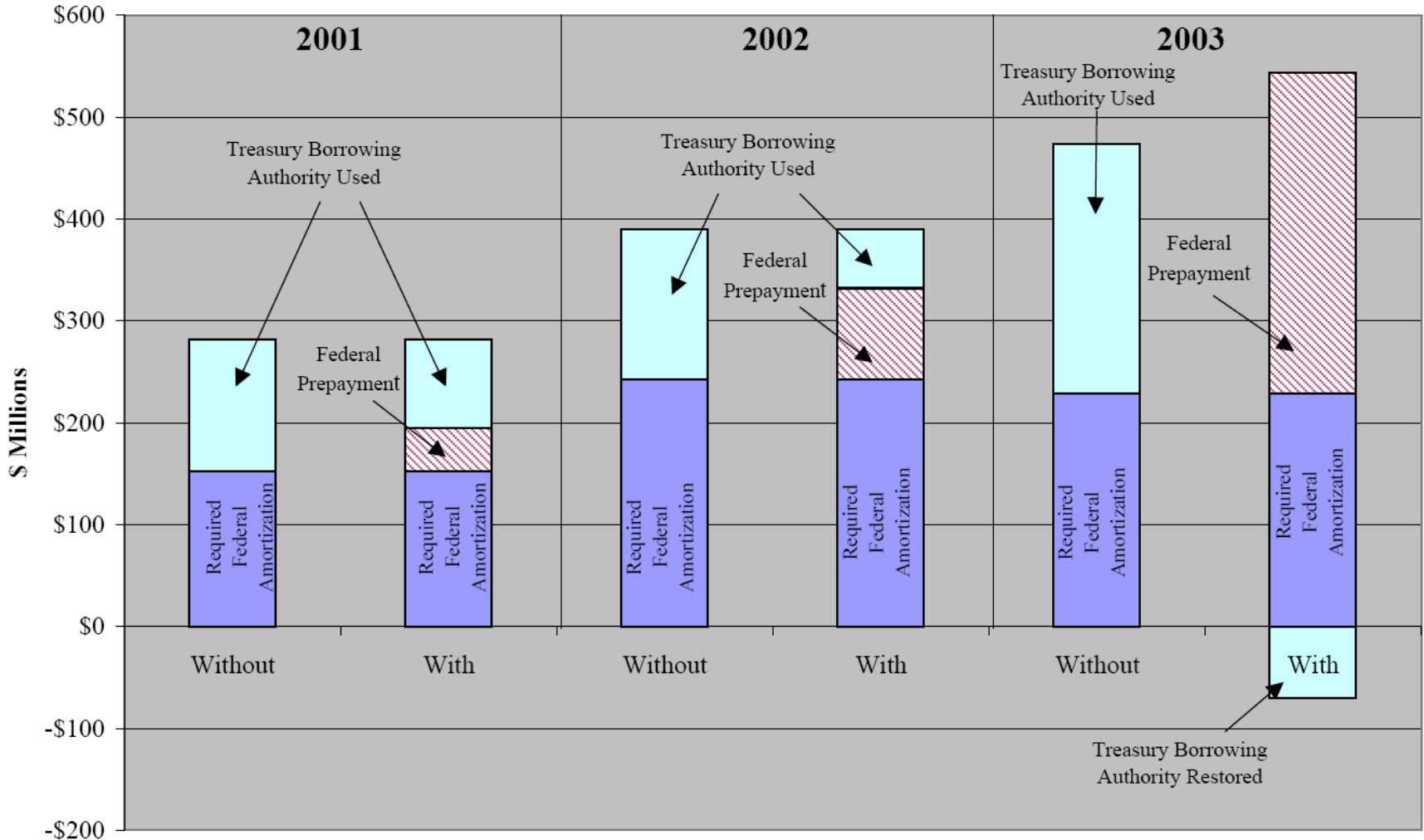
- Pursuit of Debt Optimization will not make customers of either business line any worse off than continued use of Treasury financing.
- Seek to produce the lowest overall principal and interest payment to rate payers while maximizing availability of Treasury borrowing.
- Adhere to FERC, GAAP, and IRS requirements

Results



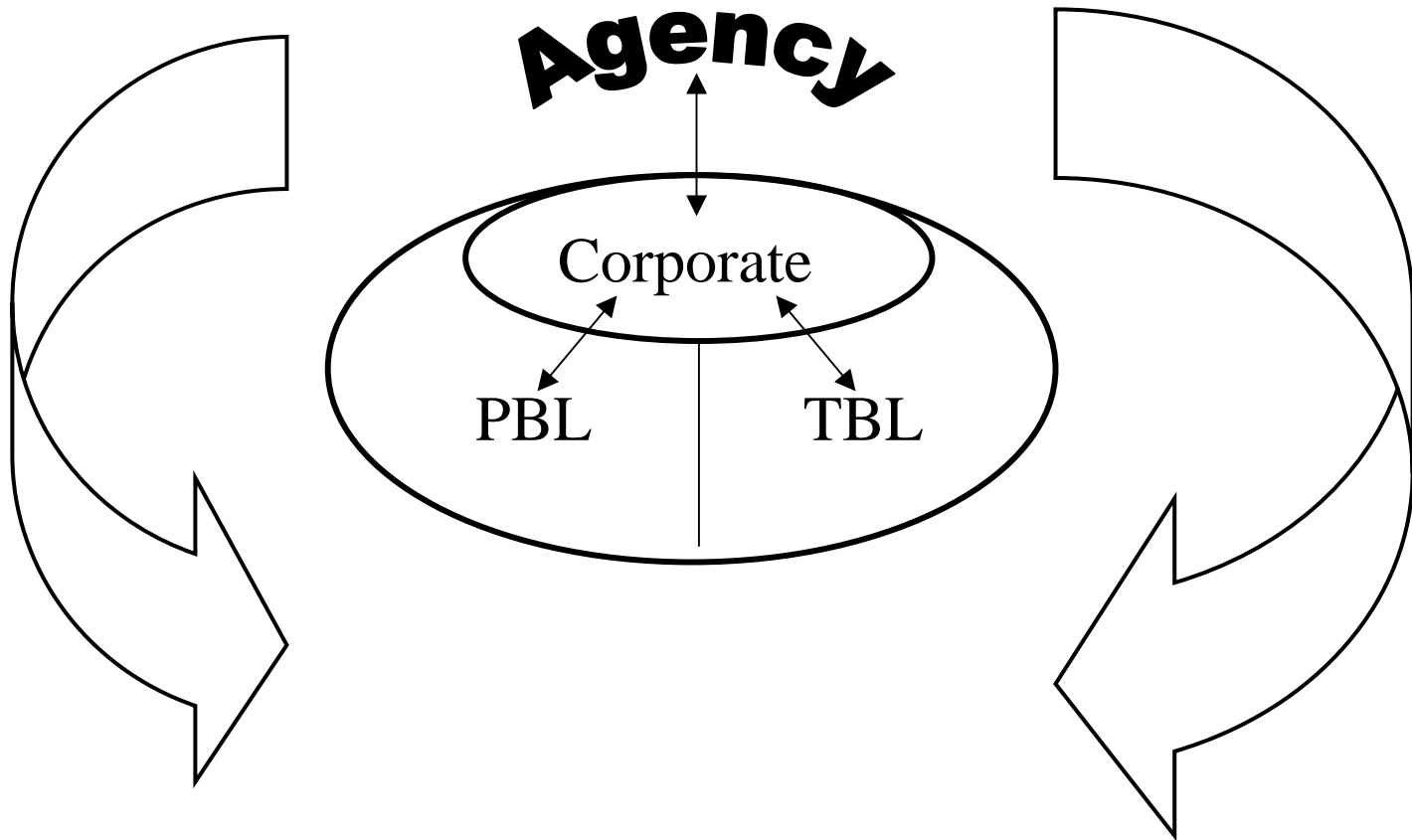
Effect of Capital Spending on Borrowing Authority

Actual Capital Spending with and without Debt Optimization



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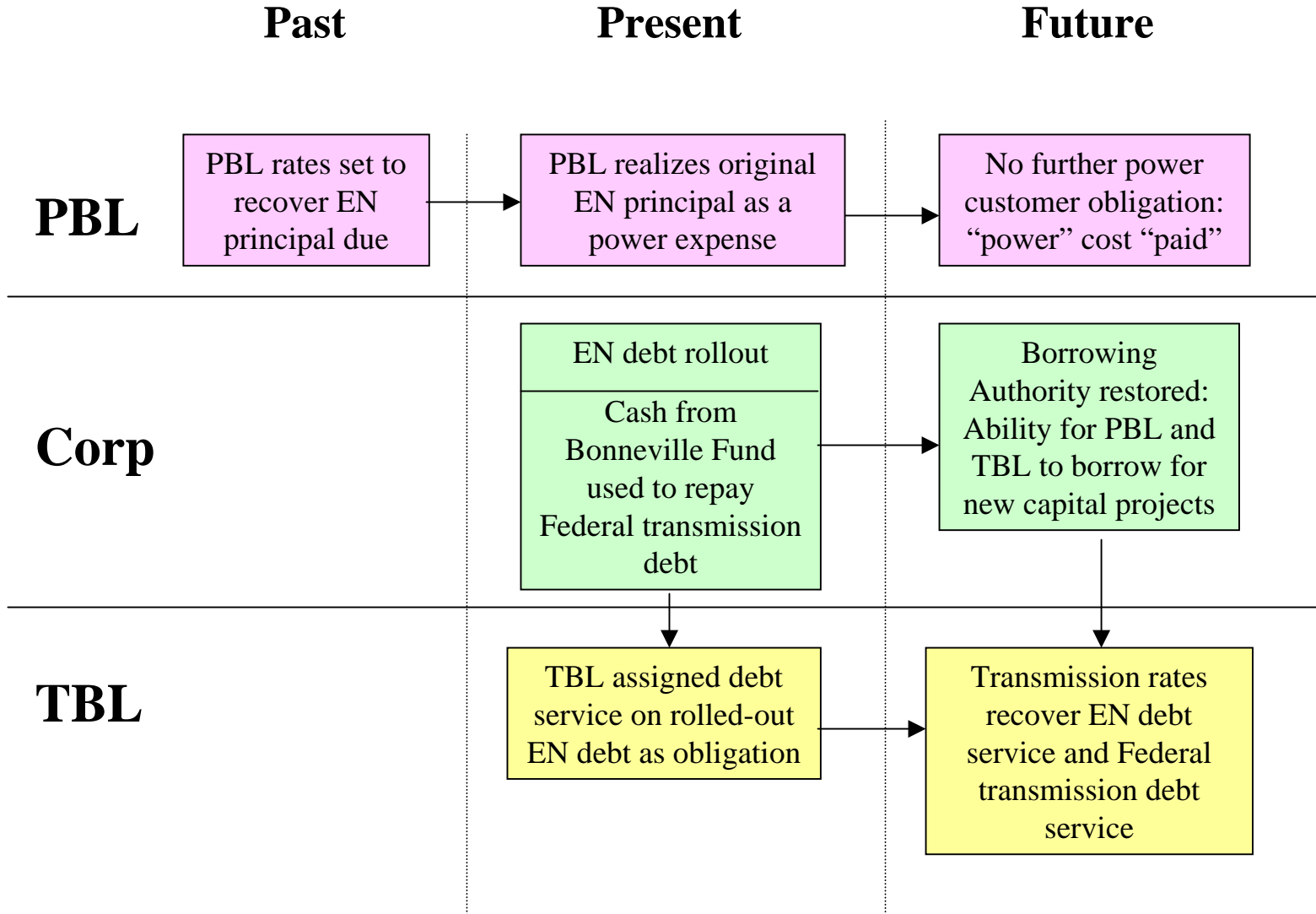
- Corporate manages debt and access to capital for the agency.
- Corporate takes prudent actions to ensure adequate access to capital so that both business lines can fulfill Bonneville's statutory obligations.

Debt Optimization Goal – No Increase in Rates

- The amount of EN debt that could be extended is greater than the power Federal debt that could be prepaid without raising power rates.
- Since the opportunity to extend EN debt expires each year as EN debt is repaid and not extended, BPA explored other approaches to achieve the full potential of debt extension.

Debt Optimization Program –Transmission Opportunities

- The capital needs of both power and transmission compete for the scarce resource of BPA's ability to borrow from the U.S. Treasury.
- By applying some of the proceeds from the debt optimization program to prepay Federal Transmission debt, BPA could increase the net amount of borrowing available from the U.S. Treasury.



Summary of Financial Results Through Single Portfolio Management

- Even though the amount of long-term liabilities has been relatively constant from FY00 to FY03, just under \$13 billion, about one third of the portfolio has been refinanced.

- As a result, between FY00 and FY03, the weighted average interest rate (WAI) on total outstanding liabilities decreased from 6.6% to 5.7%, a 90 basis point (.9%) reduction, currently a savings of over \$100 million per year to BPA customers.

- Major Drivers Affecting Interest Rate Savings
 - Increase in lower interest rate EN principal outstanding and a decrease in higher interest rate Federal principal outstanding due to the debt optimization program
 - The issuance of short-term rather than long-term federal debt to accommodate the debt optimization program
 - Refinancing in a low interest rate environment through the following actions
 - Debt extension for the debt optimization program
 - Pure interest rate savings from traditional third-party financings
 - Lower Treasury rates for new borrowings

Single Portfolio Management has Created Significant Results

Pre-Debt Optimization FY 2000 ^{1/}

(\$ millions)

	Power Marketing		Transmission		Total	
	Liabilities Outstanding (\$millions)	WAI Rate	Liabilities Outstanding (\$millions)	WAI Rate	Liabilities Outstanding (\$millions)	WAI Rate
Total Appropriations ^{2/}	\$3,091	7.1	\$977	7.2	\$4,068	7.1
Total Bonds Issued to Treasury	779	6.7	1,733	6.6	2,512	6.7
Total Federal Liabilities	3,870	7.0	2,710	6.8	6,580	6.9
BPA Liabilities to Non Federal Parties	6,409	6.2	0	0	6,409	6.2
Total FCRPS Liabilities	\$10,279	6.5	\$2,710	6.8	\$12,989	6.6

1/ Irrigation assistance liability not included (\$770 million at zero percent interest).

2/ Appropriation amounts exclude appropriations for work still in progress.

Post-Debt Optimization FY 2003 ^{1/}

(\$ millions)

	Power Marketing		Transmission		Total	
	Liabilities Outstanding (\$millions)	WAI Rate	Liabilities Outstanding (\$millions)	WAI Rate	Liabilities Outstanding (\$millions)	WAI Rate
Total Appropriations ^{2/}	\$3,066	7.0	\$868	7.2	\$3,934	7.0
Total Bonds Issued to Treasury	804	4.8	1,893	5.5	2,697	5.4
Total Federal Liabilities	3,870	6.5	2,761	6.0	6,631	6.3
BPA Liabilities to Non Federal Parties	6,286	5.1	0	0	6,286	5.1
Total FCRPS Liabilities	\$10,156	5.6	\$2,761	6.0	\$12,917	5.7

1/ Irrigation assistance liability not included (\$685 million at zero percent interest).

2/ Appropriation amounts exclude appropriations for work still in progress. 2003 CWIP was \$674,432,593.

This information has been made publicly available by BPA on August 3, 2004 and is consistent with BPA's and Energy Northwest's FY2000 annual reports.

- Debt optimization is the least cost alternative to maintaining continued access to Treasury borrowing.
- The current year EN bonds are retired just as they would have been without debt optimization.
- BPA's capital intensive business is projected to deplete access to Treasury borrowing by FY 2008 unless we continue to use debt optimization and other financing mechanisms.
- The debt service reassignment costs are functionalized to Transmission, thereby becoming a long-term obligation of transmission ratepayers.
- BPA's overall interest expense is lower due to this program.