BPA’s Lease-Purchase Program
(Third-Party Financing)

Presented to:
Customer Collaborative Sub-Group

April 13, 2007
Today’s Objective

Status update from the October 2006 meeting

• Why is BPA implementing the lease-purchase program?

• What are the current program expectations?
  • Types of projects
  • How it fits into BPA’s capital budgeting process

• What is the status of the program?

• How big is this program?
  • FY07 forecasted amount
  • Program sizes: FY07-18

• What is the latest estimate for the cost of financing and how does that compare to other alternatives?
Remaining Borrowing Authority
(based on BPA’s FY 2007 Congressional Budget)

Notes
* The base case does not include the effects of the President's proposal regarding the application of net secondary revenues to retire debt early.
* There is no assurance that the debt optimization program will be fully implemented.
* There is no assurance that BPA will be able to achieve its full potential for using third-party financing.
* The figures are subject to change as new information becomes available.
Transmission’s focus on capital

- **Reliability** – Continue to maintain and replace aging system equipment and make cost-effective investments in new transmission where needed for reliable load service or congestion relief.

- **Compliance** – Comply with mandatory reliability standards established by NERC and WECC.

- **New Resources** – Enable the integration of new generation (wind generation) into the Northwest transmission grid.

- **Congestion Management** – Maintain and enhance the system’s total transfer capability to facilitate reliable load service and transmission transactions.
Sample of projects

Main Grid
• Seattle Area 500/230 KV Bank
• Olympic Peninsula Reinforcement

Area and Customer Service
• South Oregon Coast (Rogue SVC)
• City of Centralia

Upgrades and Additions
• Fiber Optics

System Replacement
• Wood Poles Replacement
• Transmission Line Replacements
• BPA’s lease-purchase program is currently for Transmission Service assets only.

• Corps of Engineers and Bureau of Reclamation: BPA does not own the assets

• Conservation and Fish & Wildlife: Non revenue producing assets (FAS 71 assets)
Program Status

• February 1, 2007 – DOE gives formal approval to BPA to move forward with the master lease program for 2007

• February 5, 2007 – FY 2008 President’s Budget released with
  – Commitment to BPA’s third-party financing program
  – No reference to FTAA (Financial Transparency and Accountability Act)

• Current target date to enter master lease and initial lease commitment is mid-May.
Program Status

- **FERC—Disclaimer of Jurisdiction.**
  - Filed: February 14th
  - Status: Disclaimer granted March 23rd

- **State Utility Commissions—Disclaimers of Jurisdiction.**
  - **Washington**
    - Filed: March 13th
    - Status: Public comments due April 6th; decision expected by May 7th
  - **Oregon**
    - Filed: March 27th
    - Status: Decision expected by May 18th
  - **Idaho**
    - File: Week of April 2nd
    - Status: Decision expected by June 1st
  - **Montana**
    - Filed: March 30th
    - Status: Decision expected by June 1st
Program Size

- FY07: $75 - 100 million
- FY07-18: $1.5 billion

– Subject to Change
– Assumes current BPA policies

This information has been made publicly available by BPA on April 13, 2007 and does not contain Agency approved Financial Information. Information is subject to change.
Cost Update

Additional FTE Requirements

- October 2006 Forecast: 50-105 bps
  - Leasing Cost: 15 bps
    - $900,000 average cost per year
      - Transaction Costs
      - Lease Costs
      - BPA FTE (5.25)
  - NIFC II’s premium over Treasury: 30-45 bps
    - Schultz-Wautoma: 29 bps
    - BPA’s Official Forecast (April 26th, 2006): 45 bps
  - Unknowns (such as taxes: 5-45 bps)

- Revised Forecast: 80-120 bps
  - Allows for $750,000 - $5,000,000 per year for unknown costs
  - For every $500,000 in additional costs per year, there will be an incremental increase in the all-in cost by approximately 3 basis points.

- Reason for Increase
  - Increased administrative requirements
    - Systems
    - FTE
  - Property tax requirement
Cost Update
Tax Analysis

- Property Tax Analysis: 30 bps
- Property taxes could start around $300,000 per year and increase as overall investments increase to $4.5 million.
- State and Federal income tax should be minimal and could result from over estimating NIFC II’s operating costs that are assumed in the lease payment (an estimate is included in the analysis).

### Property Taxation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Historical Transmission Investments (% of BPA Total)</th>
<th>Tax Assessment</th>
<th>Tax Rate</th>
<th>Tax Assessment</th>
<th>Tax Rate</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>0.2%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td>Varies depending on location. Average rural rate is 1.19%.</td>
</tr>
<tr>
<td>Idaho</td>
<td>2.9%</td>
<td>100.0%</td>
<td>1.19%</td>
<td></td>
<td></td>
<td>Varies depending on location. Average effective tax rate for electric transmission assets is very high. In 2003 was 4.80%.</td>
</tr>
<tr>
<td>Montana</td>
<td>5.8%</td>
<td>12.0%</td>
<td>4.80%</td>
<td></td>
<td></td>
<td>Varies depending on location. Average rate for business is approximately 0.75% of fair market value.</td>
</tr>
<tr>
<td>Oregon</td>
<td>36.6%</td>
<td>100.0%</td>
<td>0.50% to .80%</td>
<td></td>
<td></td>
<td>Varies depending on location.</td>
</tr>
<tr>
<td>Washington</td>
<td>54.4%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wyoming</td>
<td>0.1%</td>
<td>9.5%</td>
<td>0.75%</td>
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</tr>
</tbody>
</table>

Assumptions:
1- all taxes are valued at investment cost
2- future transmission investments will reflect past transmission investments
Cost Comparison

• Through extensive investigation, BPA’s lease-purchase model is the lowest cost third-party model.

• Any non-federal model using a third party will require infrastructure investment by the third party or BPA.

• BPA’s model requires a significant infrastructure investment (systems and FTE)

• This infrastructure investment will be minimized due to:
  • Economies of scale
  • Within our core competence
  • Synergy between lessee and lessor
  • No required return on investment

• Therefore, in order to do a cost comparison you really need to evaluate the trading spreads at issuance of debt for other entities.

<table>
<thead>
<tr>
<th>Spread to Treasury (Taxable)</th>
<th>BPA (AAA)</th>
<th>AA-</th>
<th>A+</th>
<th>A</th>
<th>A-</th>
<th>BBB+</th>
<th>BBB</th>
<th>BBB-</th>
</tr>
</thead>
<tbody>
<tr>
<td>IOU*</td>
<td>N/A</td>
<td>92</td>
<td>102</td>
<td>110</td>
<td>120</td>
<td>140</td>
<td>170</td>
<td>200</td>
</tr>
<tr>
<td>Municipal</td>
<td>80</td>
<td>87</td>
<td>97</td>
<td>105</td>
<td>115</td>
<td>135</td>
<td>165</td>
<td>195</td>
</tr>
<tr>
<td>Path 15</td>
<td>Not publicly available</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

*Assumption  IOU add 5-10 bps over municipal credit.
**Spread estimate provided by Citigroup Corporate and Investment Banking division
*** IOU debt structure is commonly 50% equity and 50% debt. The equity portion is granted a rate of return that will increase the all-in-cost higher then the estimated spread to Treasury.

*Please see additional handout
The Path 15 model brought private equity into the transmission system but at a high cost due to their required rate of return.

In addition, independent transmission companies are for-profit and need to deliver returns on their investments adequate to satisfy shareholders, increasing the overall cost of the project.

FERC approved a rate of return on equity of 13.5%

Moody’s rated the debt at a Ba1 and Ba3 on the secured bonds issued.
  - These bonds were privately placed so the exact premium over Treasury is not publicly available information.

BPA backed municipal ratings are rated AAA by Moody’s and AA- by Fitch and S&P.
  - An entity’s credit strength partly determines the premium over Treasury the market will require at debt issuance

It is unclear if WAPA incurred additional system or FTE costs with the Path 15 financing.

Source
Summary

• BPA’s future capital needs exceed its forecast of available Treasury borrowing authority.

• Congressional and Presidential guidance supports our current path.

• BPA has legal authority to enter into lease-purchases.

• Two similar but distinct individual investment like models (Schultz-Wautoma and Master Lease)

• Lease-purchases are key tools to ensure adequate access to capital.

• BPA is receptive to alternative third-party financing models
  • No cost-effective alternative to date