

AGENCY RECORD OF DECISION:

**PREPAYMENTS FOR FUTURE ELECTRIC
POWER DELIVERIES AND IMPLEMENTING
REQUEST FOR OFFERS**

September 2012

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PART I. INTRODUCTION AND NEED FOR AN ELECTRICITY PREPAYMENT PROGRAM

This document discusses the decision of the Bonneville Power Administration (“BPA”) to proceed with a program (“Program” or “Prepayment Program”) for preference customers to prepay for electricity (also referred to herein as “power”) purchased from BPA pursuant to the preference customers’ Long-Term Regional Dialogue Power Sales Agreements (“PSAs”), and to proceed with BPA’s Request for Offers for Prepayment of Electricity, dated August 14, 2012, (“RFO” or “Final RFO”) soliciting offers from BPA’s preference customers to prepay for electricity from BPA. The Final RFO is included as Attachment A to this Record of Decision. BPA views the Program as a viable solution that will contribute to BPA meeting its strategic goal of obtaining funds to make capital investments in the Federal Columbia River Power System (“FCRPS”) when needed.

The energy industry is capital intensive, therefore BPA’s success in delivering benefits to its ratepayers hinges greatly on its ability to have sufficient access to low cost sources of capital to maintain, replace and improve the power and transmission facilities of the FCRPS. In addition, BPA continues to invest in energy efficiency and fulfill its statutory obligations for fish and wildlife through capital investments.

FCRPS capital needs have grown to unprecedented levels in order to replace and modernize aging infrastructure, add capacity to meet renewable resource integration demands, and fulfill obligations in the Pacific Northwest Region (“Region”) for energy efficiency and fish and wildlife protection, mitigation and enhancement. BPA has historically relied on its authority to borrow from the U.S. Treasury (or, “Treasury”) to finance most of these investments. Yet this low cost and efficient source of capital, although fully and reliably repaid at market rates of interest, is capped by federal law and will be inadequate to meet capital needs without developing and or utilizing other funding sources. Enacting increases in BPA’s permanent mandatory Treasury borrowing authority “scores” on the U.S. Budget (Public Law 111-139, Statutory Pay-As-You-Go Act of 2010) and the cash deficit of the United States as a "discretionary" funding action at the time such an authorization increase passes Congress. Therefore, BPA believes that the prospects for the enactment of such legislation are uncertain. Given the fundamental importance of BPA’s capital programs to the health and welfare of the Region and to the achievement of BPA’s statutory directives, BPA has determined that it would be imprudent to plan for or expect Congress to enact additional increases in the Treasury borrowing authority.

Since 1995, BPA has been encouraged by the Executive Branch and in Congressional committee reports to utilize non-federal financing. In response, BPA has been seeking ways to employ its other authorities to open up new, reliable repeatable sources of funding to timely meet the capital investment needs of the FCRPS. For example, throughout the 2000s, BPA implemented the Debt Optimization Program, which involved the extension of the maturities of Energy Northwest debt. This enabled BPA to reduce the amount of Treasury bonds outstanding and thereby maintain sufficient access to remaining Treasury borrowing authority. In 2003, BPA began utilizing lease-

purchase financing for transmission facilities to supplement the use of Treasury borrowing authority.

In addition to taking the actions described above, BPA developed a Financial Plan in 2008. The Financial Plan contains three goals related to BPA's capital program:

- Ensure that capital financing needs are covered over rolling 10-year periods.
- Develop strategies and tools that extend BPA's period of sufficient access to capital.
- Ensure that BPA is able to meet its capital requirements at low cost.

The financial plan can be accessed at:

http://www.bpa.gov/corporate/finance/financial_plan/BPA_Financial_Plan.pdf

BPA periodically reviews its funding sources for adequacy. On July 26, 2012, BPA conducted an Access to Capital workshop. During that workshop, BPA provided written materials and explained that:

- BPA has identified needs for \$10.5 billion in capital expenditures from Fiscal Year (or "FY") 2012 through FY 2022. This is the amount of capital expenditures for such period after BPA conducted extensive Strategic Capital Discussions and concluded the Capital Investment Review ("CIR"), a process designed to provide interested parties an opportunity to review, comment and influence BPA's long-term capital forecasts and draft asset strategies.
- As of September 30, 2011, BPA had \$4.8 billion in available Treasury borrowing authority.
- BPA has \$3.0 billion of Treasury bonds amortization scheduled over the next 10 years.
- Considering BPA will conservatively reserve \$750 M of the borrowing authority for the Treasury line of credit, which provides for risk mitigation in lieu of holding equivalent financial reserves, BPA would have a borrowing authority shortfall of \$3.5 billion in 2022.
- BPA has been encouraged by the executive and legislative branches of the federal government to pursue additional sources of non-federal capital.
- BPA will reach its Treasury borrowing authority limit in 2017 absent prudent use of non-federal sources of funding (and assuming Congress enacts no increase in BPA's Treasury borrowing authority).
- Utilization of revenue financing would cause power rates to increase more than already expected.

The Access to Capital Workshop materials are provided as Attachment B to this Record of Decision. As discussed during the 2012 Access to Capital workshop, BPA is pursuing various actions that will assure capital access at low relative cost. BPA is prioritizing proposed capital investments as well as expanding its lease-purchase program for transmission facilities and is analyzing a long-term, phased-in revenue financing strategy. The Access to Capital Workshop and materials also presented the effects of a potential electricity prepayment program. BPA presented five combinations of non-federal funding sources that would achieve the objective of

assuring BPA has access to capital for a rolling 10-year target. Three of the five combinations incorporated levels of funding assumptions from an as-of-then not-yet-finalized electricity prepayment program

The funds received under the Program will be held in the Bonneville Fund and will not be specially earmarked or reserved for Fed-Hydro investments but the availability of funds will assure that the investments can and will be made when needed. The amount of funds sought under the Program, as implemented initially through the Final RFO in connection with the FY 2014 – 2015 power rate proceeding, will be determined by reference to BPA Power Services’ federal hydroelectric investments from the draft 2014 Hydro Asset Strategy for the FCRPS. This draft Hydro Asset Strategy was presented in the Capital Investment Review and featured a 10-year strategy including forecast spending levels. The associated FY 2014 - 2015 spending levels will become part of the final Integrated Program Review.

The Hydro Asset Strategy takes a risk-based approach to identifying the optimum time for making investments. The optimum time is the point at which reliability risk costs begin growing faster than the benefit of deferring the investment. Up until that time the value of investment deferral is greater than the expected increase in reliability risk costs, so it makes financial sense to continue deferring equipment replacement. If investments are postponed beyond the optimum time, reliability risk and associated replacement power costs result in higher costs to power customers over the long term. The Fed Hydro capital program implements a plan consistent with the strategy. The 2014 Hydro Asset Strategy for the FCRPS can be found at the following link:

http://www.bpa.gov/corporate/Finance/IBR/CIR/docs/Federal_Hydro_DSA.pdf

The central goal of the Program is to position BPA in the long term to assure that it has access to adequate funds, when needed for additions, improvements and replacements at existing US Army Corps of Engineers (“Corps”) and Bureau of Reclamation (“Reclamation”) hydroelectric projects in the Region. This funding ensures continued generation performance for this system. Sustaining performance of the system through capital asset replacement and modernization is achieved by maintaining generation unit availability and enhancing the operational efficiency of some existing units. This effort is critical to BPA and ensures that the Region has an adequate, reliable and low-cost power supply system. All of the electric power (apart from station service) that is produced at the FCRPS Corps and Reclamation hydroelectric projects is marketed by BPA.

Another important consideration for BPA is assuring that BPA’s power rates remain as low as possible consistent with sound business principles. BPA’s expectation is that the Program will result in BPA bearing an implicit time value of funds, and therefore will result in an additional cost component for recovery in power rates. On balance, however, BPA believes that this incremental cost is a sound tradeoff given the potential that other unpalatable alternatives could occur without the Program. If BPA were to seek to adjust overall power rate levels to obtain current revenues to meet all Power Services’ costs including Fed Hydro investments, there would be potential for a substantial increase in the FY 2014 - 2015 rate period (with additional increases through FY 2019) over rate levels that would otherwise apply. Another potential alternative could be to deplete available Treasury borrowing more quickly than would be prudent

given BPA's long-term finance perspective. Another potential could be to avoid or delay important investments in the Fed Hydro assets or other Power Services' programs and bear increased risk of unplanned outages. In short the Program has the potential to assist BPA and Regional stakeholders in meeting Power Services' program needs without resorting to less appealing or more costly options.

With regard to the implicit cost of funds to be borne by BPA under the Program, as described below, the Final RFO permits BPA to reject any or all offers. Thus, BPA will control the cost of funds it (and power ratepayers) will bear by accepting offers at a level that has an acceptable implicit cost of funds.

PART II. BACKGROUND TO THE PREPAYMENT PROGRAM AND RFO

On June 27 and 28, 2012, BPA conducted two webinars with customers regarding BPA's potential electricity prepayment program. At the conclusion of the second webinar, BPA opened up a 15-day comment period for stakeholders in the Region to provide feedback to help inform BPA about potential concerns and to inform the BPA Administrator in a decision to proceed or not proceed with the Program. During the webinars, BPA made available a package of materials that included a draft Request for Offers and certain Appendices ("Draft RFO"). The Draft RFO is attached as Attachment C to this Record of Decision. The Draft RFO included a number of exploratory and preliminary assumptions and features that could be used to effectuate an electricity prepayment program in connection with BPA's FY 2014 - 2015 power rate period. In view of comments received and BPA's own continuing evaluation and refinement in thinking, BPA has determined to initiate the implementation of an electricity prepayment program in the manner set forth in the final Request for Offers for Prepayment of Electricity dated August 14, 2012, inclusive of all Appendices thereto ("RFO" or "Final RFO"). The RFO is attached as Attachment A. The comments received are included and the concerns therein raised are addressed in Part V of this Record of Decision.

The Prepayment Program as embodied in part in the RFO and hereafter put into effect will increase amounts in the BPA Fund available to meet Power Services' costs, and thereby assure that Power Services' Fed Hydro investments can be made efficiently and effectively with minimal impact on power rate levels. The Prepayment Program, as is initially being implemented through the RFO, could lead to similar requests by BPA for offers of prepayment in future power rate periods.

Prior to the release of the Draft RFO, BPA met individually with interested representatives of preference customers, preference customer associations, underwriters, financial advisors, and attorneys to explore the possibility of developing an electricity prepayment program that would be potentially acceptable in the Region, and especially among BPA's preference customers. As part of BPA's 2011 Strategic Capital Discussion that concluded in November 2011, BPA asked interested parties in the Region for volunteers to form a Regional Prepay team to explore the possible development of an electricity prepayment program. The team met five times beginning in December 2011 and ending March 2012, leading up to the issuance of the Draft RFO. The materials from the team meetings are included as Attachment D to this Record of Decision. The

Regional team was composed of representatives from municipal utilities, public and people’s utility districts, electric power cooperatives, and preference customer associations. In addition, certain other subject matter experts including BPA’s financial advisor, public finance counsel in the Region and bond underwriters periodically attended meetings as guests of the Regional team members. BPA staff was under direction to explore and develop an electricity prepayment proposal that would potentially find general acceptance in the Region and would be potentially acceptable to the BPA Administrator. As this process unfolded, the Regional team agreed that any electricity prepayment proposal would have to conform to two principles: (1) customer equity across participating and non-participating customers, and (2) consistency with the PSAs.

In connection with this pre-development phase, BPA prepared and presented to the working group and others a series of draft “term sheets” and other documents intended to provoke thinking, identify and solve potential issues and assist generally in advancing toward an electricity prepayment proposal. BPA also worked internally under executive management guidance to identify and resolve issues. BPA Power Services’ Account Executives also met with interested preference customers to advance their understanding of the evolving thinking on the electricity prepayment concept and to solicit individual comments.

In light of the foregoing Program and RFO development, BPA made numerous preliminary working conclusions which were embodied in the Draft RFO. In finalizing the RFO, BPA has made a number of technical changes. The changes from the Draft RFO to the Final RFO are discussed in Part VII of this Record of Decision.

A history of important dates and events in the development of the Program and the Final RFO is as follows:

<u>Month/Year</u>	<u>Event</u>
7/11	Initial discussion testing prepays with selected customers
9/11	Strategic capital overview meeting with public
11/11	Strategic capital discussion with public
12/11 – 5/12	Meetings with account executives and finance staff and stakeholders throughout the region
3/12 – 4/12	Deputy Administrator and Chief Financial Officer meet with stakeholders throughout the region
4/12	Executives attended WAPUDA finance officers meeting
5/12	Prepay program discussed at Quarterly Business Review meeting
6/12	Prepay program discussed at public Debt Management workshop
6/12	Webinars held regarding prepays
6/12 – 7/12	Public comment period
7/12 – 8/12	BPA staff meet with General Managers and customer boards
7/12	Meetings with rating agencies to determine their view on prepays
7/12	Access to Capital meeting with stakeholders

PART III. DESCRIPTION OF PREPAYMENT PROGRAM

Under the Prepayment Program, participants prepay a portion of their PSAs and receive reductions (“Prepayment Credits”) to the amounts on their monthly power bills that would otherwise be owed to BPA for electric power purchased under the PSAs and certain cash remittances if excess Prepayment Credits are deemed assigned to other BPA power customers. The Prepayment Credits are defined to be the dollar amounts that a participating customer making an electric power Prepayment would have paid in the related month but for the amount it prepaid, and are reductions to the amount that otherwise would be payable with respect to the prepayment participant’s purchases of electricity from BPA. Thus, the *quantity* of electricity (megawatts or megawatt-hours) to which a Prepayment applies shall vary, depending on BPA’s rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA’s rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits). The Prepayment Credits reflect the value of electricity attributable to the Prepayment(s) made by the customer for each month as set forth in a Prepayment Credit schedule. Prepayment Credits are associated with and reflect the right of a related customer to receive delivery of a specified value of electricity from BPA each month.

BPA expects that the Program, of which the Final RFO and related actions are a part, may continue for several years. From time to time, approximately every 2 years, BPA expects to issue a request for offers similar to the Final RFO or another solicitation of interest from its customers to prepay for electricity.

The Program, as implemented in the near term by means of the Final RFO, is designed as follows:

- a. BPA solicits Offers for a specified number of “Blocks” (as hereinafter described) based on the forecast Fed Hydro related capital spending for an associated power rate period. BPA expects the solicitations to be made every two years, sequenced ahead of related power rate cases. The solicitations could, however, occur at other times.
- b. Under the Final RFO, a Block is an amount of electric power equal to \$50,000 per month (reflected in the form of a Prepayment Credit) for 15.5 years (*i.e.*, through September 30, 2028, the remaining term of the PSAs as measured from April 1, 2013). A Block is therefore equal to \$9.3 million in Prepayment Credits over the remaining life of the PSA. The definition of a Block could change in future installments of the Program, as reflected in related future solicitations.
- c. Customers are eligible to purchase a limited number of Blocks based on the lower of:
 - Annual Prepayment Credits may not exceed 50% of the participant’s lowest year of forecasted BPA payments for firm power from FY 2014-2018.
 - If the customer is a “Net Billing Participant” in certain Net Billing Agreements (as hereinafter described), its annual Prepayment Credits may not exceed 100% of its forecast payments to BPA for firm power from 2014-2018, after 1.15x Net Billed Projects net billing credit coverage.

BPA computed, as of the initial IPR Revenue Requirement forecast, expected transmission and power revenues for each customer for FY 2014 through FY 2018. Next, for each customer with a Participant's Share of Energy Northwest (EN) projects, BPA computed 115% of its anticipated net billing obligation to EN based on forecast EN O&M and debt service costs for FY 2014-FY2018. Therefore, the lower of these two amounts divided by 600,000 (\$600,000 being the annual value of \$50,000 monthly Prepayment Credits) gives the number of Blocks available for Offers.

d. Customers will bid prices ("Purchase Price") to purchase one or more Blocks. A customer is not limited to offering the same price for all Blocks it offers to purchase. The Program, as implemented by the RFO, is designed to elicit competitive bids from customers in order to provide BPA with a market-based cost of the Program.

e. For the Final RFO, the Blocks represent equal monthly credits through the term of the PSAs. Blocks will not be shaped. This may change in future installments of the Program.

f. BPA will establish a "reservation price" that will be the minimum dollar amount BPA is willing to accept for each Block. This price represents BPA's cost of funds tolerance for this source of funds.

g. BPA will determine participation using a market-clearing type auction to determine a clearing price for Blocks subject to BPA's floor (the reservation price). In general, all Offers at or above the clearing price will be accepted. All accepted Offers will be at the Market Clearing Purchase Price. If the market clearing purchase price that would achieve BPA's target for aggregate Prepayments is, in BPA's opinion, too low, BPA will simply accept a smaller amount of Prepayments at an implicit cost level that is acceptable to BPA (i.e., the reservation price).

h. By purchasing a Block, a participant has pre-purchased a variable amount of energy beginning April 2013 through September 2028 in exchange for scheduled monthly \$50,000 Prepayment Credits through September 2028, the end of the participant's PSA.

i. In the event the dollar amount of power in a month that the participant has prepaid is less than the value of the power the participant received in power purchases in such month, the resulting 'unused' value (equal to the unused Prepayment Credits) will be deemed assigned to other customers and BPA will remit cash received in connection with such deemed assignments to the prepay participant. This will occur only if and to the extent that BPA has power purchases and cash receipts from other customers.

j. Prepayment Credits begin accruing the day after the Prepayments are due to be made to BPA (absent the occurrence of an event prior thereto enabling BPA or the participant to terminate the prepayment transaction) and will appear on the participant's power bill the following month.

k. For participants proposing to issue debt to fund a Prepayment, the participant may elect to mitigate its exposure to interest rate environment risk between the date of the making of the Offer(s) and the date of its related debt pricing. This will be achieved by adjusting the

participant's Prepayment amount to reflect the changed interest rate environment as reflected in yields on 10-Year Treasury securities.

l. The participant has the ability to elect-in to an off-ramp for credit spread risk between the time Offers are to be submitted and the time the participant has entered into (or would otherwise enter into) commitments to issue debt to fund its Prepayments. This mitigates the risk that the related participants will not achieve expected benefits.

m. The payment of principal or interest on any debt issued by or for the benefit of the prepaying participant will not be guaranteed by BPA.

n. The Program, as is being implemented through the Final RFO, is designed to elicit competitive bids from participants in order to provide BPA with a market-based cost of the Program.

PART IV. POLICY CONCLUSIONS AND RATIONALES FOR THE RFO

From BPA's perspective, the most important policy issues embodied in the Final RFO and the rationales for the outcomes, as reflected in the Final RFO, are addressed in this Part IV. Numerous other less significant issues were discussed, evaluated and addressed in the development of the Prepayment Program and the Final RFO. This Part IV does not purport to address all issues arising in developing the Program and the Final RFO. Unless otherwise specifically defined or used in this section, capitalized terms used in this Part IV shall have the meanings ascribed thereto in the Final RFO.

Issue 1. Maximum Aggregate Amount of Prepayments for the Program.

A concern raised in early discussions was to cap the Program to defined needs. Under the RFO, BPA will accept Offers for Prepayments, which in aggregate do not exceed the planned Fiscal Year 2014-2015 Fed Hydro investment program, plus an amount for deferred borrowing by BPA for Fed Hydro investments in FY 2013. Fiscal Year 2014-2015 Fed Hydro investment program levels will be established by BPA in the final Integrated Program Review for BPA's Fiscal Year 2014-2015 Power Rate Case. RFO Paragraph 2(c)(ii). BPA uses a structured capital review process requiring submission of a standardized business case for review by BPA. Each business case consists of a description of the project, a clear statement of objectives, description and mitigation of risks, and a rigorous analysis of project costs. The business cases are reviewed by a cross-agency team and senior executive management is involved as part of BPA's Capital Allocation Board, which oversees the process. In addition, both annual and end-of-project targets are set for each project covering cost, scope and schedule.

One feature of the RFO is that actual aggregate Prepayment amount may change from the amount initially accepted by BPA, depending on changes in the interest rate environment. The aggregate amount of variability depends on the number of accepted Offers that include this variable election ("Market Rate Adjustment") and changes in the interest rate environment. This feature is described in Issue 9 below. This potential variability means

that it is possible that the aggregate Prepayment amount actually received by BPA may be greater than the aggregate amounts offered and initially accepted by BPA if the interest rate environment (represented by yields on 10-Year U.S. Treasury securities) were to decline after the Offer date. The cap is flexible to reflect this possibility and there will be no violation of the Program cap under RFO, Paragraph 4(b)(i), in such an event.

Issue 2. Variable Quantity Prepayment.

One possible approach for the Program would be to seek prepayments of a fixed quantity of electricity at a fixed price. This approach is not acceptable to BPA because it would interfere with BPA's overall ability to change Priority Firm Power Rate levels applicable to preference customers' purchases under and during the term of the PSAs. It would also lead to differentiated rate levels and risk exposures for rates for participants compared to non-prepaying customers. This is also not acceptable to BPA as it conflicts with the principle of equity among Program participants and Program non-participants.

Thus, the RFO and the PSA Revision reflect that a Participant's Prepayment is *not* for a fixed quantity of electricity. Rather, a Prepayment is and will be treated as meeting the obligation of the Participant to make payment to BPA for a fixed monthly *value* of electricity. As provided in the PSA Revision, the *quantity* of electricity to which a prepayment applies shall vary, depending on BPA's rates and rate schedules that apply to electricity purchases by the Participant (or BPA's rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits). The schedule of the value of electricity to be prepaid each month will be fixed, as provided in the PSA Revision, and will not be subject to change after the associated Prepayment is made and the Revision takes effect. RFO, Appendix H, Section #.3.

Prepayment Credits apply only to payments the Participant otherwise would be required to make to BPA for each month as a result of the Participant's purchases of electricity from BPA during that month pursuant to the Participant's PSA. For avoidance of doubt, a Prepayment does not entitle the Participant to payment credits for transmission or related services or any other products, apart from power, that it purchases from BPA, or for any other obligation, apart from the purchase of power, that the Participant owes to BPA. *Id.*

Issue 3. Levelized Credits.

Early customer comments in the pre-development phase raised the view that participants should have the option to reshape the stream of credits or to bid for a non-flat stream of credits. BPA established near the outset the need to control the shape of the credit streams, such that each phase of the Program should match the timing of BPA's capital needs. BPA also took the position that the credits associated with a Prepayment offering not become "negotiable" at a later date, since the Prepayment agreement would be established up front, and in the future not entitle the participant to a fixed power rate from BPA. BPA has concluded that providing prepaying customers rights to change the shape of the credits over time would interfere with the value of the discounted cash flows and reduce the Program benefits to non-participating customers and the Region. For the first

phase of the program, an important goal for BPA is to ensure uniform Prepayment Credits across time for all prepaying customers because this allows for easy administration of the credits for BPA billing systems and it provides for ease in comparing customer bids for the same stream of credits. BPA may move to a shaped stream of credits in the future years' prepayment phases but the shaping will probably be tied to minimizing upward power rate effects over the remaining term of the PSAs.

Issue 4. Use of Blocks.

To accommodate the goal of a uniform shape of Prepayments Credits over time and to fit with a competitive bid structure, BPA developed the concept that a stream of Prepayments Credits would be packaged as a "Block" of the value of electric power and the customer would bid on such Blocks. For the first phase of the Program, each Block will have Prepayments Credits that are the same nominal value from month to month under a set schedule during the remaining term of the PSAs. The period of the Prepayments and related Prepayment Credits is also set to be the same for all participants with the same beginning and ending points. Use of uniform Blocks for identical periods is also helpful in BPA's billing processes.

Issue 5. Size of Blocks / Need to Purchase Whole Blocks.

BPA initially considered setting the minimum size of the Participant Prepayments to be relatively large. Staff initially thought that seeking single large Prepayments of at least \$100 million would lead to Program simplicity. At first, BPA staff thought that most interested customers would be large utilities and for ease of administration large negotiated Prepayments would be more convenient for BPA, especially for billing purposes. As interest in the potential Program spread, and as the competitive auction and Block concepts evolved, BPA decided to set the size of a Block to be \$50,000 for 186 months with a nominal annual amount of \$600,000 in Prepayment Credits and an aggregate accumulated amount of \$9.3 million in Prepayment Credits. RFO, Paragraph 2(c). The Prepayment associated with a Block would thus be under \$9.3 million. At this level of Prepayment and monthly credit many BPA customers would have the ability to purchase at least one Block creating the opportunity for equity among customers irrespective of size. Since the concept of a Block assists in make the billing process easier, BPA determined that it would not accept bids for partial Blocks. BPA decided it will allow a customer to consolidate bids from customers wanting to participate in less than a single Block. The customer serving in the consolidator role would be responsible for receiving cash from sub-participants for their shares of a Prepayment and returning cash to them as Prepayment Credits are realized.

Issue 6. Request for Offers/ Competitive Auction.

BPA had a choice to set the price of a Block as either a price determined by BPA or one set in a competitive auction among interested customers. BPA initially received some support for the concept of having BPA set a predetermined price for a Block. While this approach had some merit, in that it would be easily administered, it created two

unacceptable outcomes for BPA. If BPA set the price too high, BPA could drive away potential customers who might be willing to participate at a lower price. On the other hand, if BPA set the price too low, it would be incurring Program costs that are higher than necessary. With the development of a standardized Block and associated Prepayment Credits, BPA created an opportunity to use an auction as the means to obtain efficient pricing of Blocks. BPA will solicit Offers for Blocks, which, when accepted by BPA, will result in separate contracts, one for each Block.

Issue 7. Use of Market Clearing Price.

Once BPA decided to use a competitive auction, BPA received comments on several approaches to an auction. One approach would be for BPA to scale the offered Purchase Prices ‘as-bid’ and accept the most favorable Offers that achieve the desired amount of Prepayments at an acceptable Program cost to BPA. With an as-bid auction, each successful bidder would pay the Purchase Price it bid, so that it is likely that accepted Purchase Prices across the auction could vary by Offer and Offeror, perhaps substantially. A second approach would be for BPA to set a single acceptable Purchase Price and accept all Offers at that price, with some form of tie-breaker to size the aggregate amount of Prepayments to an acceptable amount. A third model would have BPA use a market clearing price that would apply to all accepted Offers. Thus, all Blocks would be sold at the same price even if the participants’ implied or estimated cost of funds to fund their respective Prepayments differ. Comments BPA received indicated that without the use of a market clearing price, customer participation would be limited, because participants would not want to be seen as paying more than others for identical Blocks of power. If BPA set a single acceptable price, there would be concerns that BPA would set a Purchase Price that was too low relative to the willingness of potential Offerors, thereby ‘leaving money on the table’ to the detriment of non-participating customers.

To maximize the amount of customer participation, BPA chose to use a market clearing price in the auction of Blocks. RFO, Paragraph 4. BPA also has control over the cost of the Program since it reserves the right to accept any number of Offers. If the Market Clearing Purchase Price that would achieve BPA’s target for prepaid funds is too low in BPA’s opinion, BPA will simply accept a smaller amount of Prepayments at an implicit cost level that is acceptable to BPA. *Id.*

Issue 8. Addressing the Risk of Repayment Credits Exceeding Value of Power Purchases / Deemed Reassignments / Remitting Cash.

In the pre-development discussions with team members it was suggested that BPA provide participants with make-whole payments in the event that a participant would be unable to obtain the value of the Prepayment Credits on the agreed-to schedule. More particularly, team members were concerned about the possibility that participant loads could decline under the terms of the PSAs to the point that the dollar amount of the actual power purchases in a given period from BPA proved to be lower than the scheduled Prepayments Credits in that same period. In keeping with the notion that the transaction be a prepayment for power, BPA was reluctant to provide an unconditional commitment

to provide cash payments in the event where there are excess or ‘unused’ Prepayment Credits. BPA has taken the approach, borrowed loosely from notions used in natural gas prepay transactions, that BPA will apply ‘unused’ Prepayment Credits arising in a month to power purchases from BPA by others in the same month. The final RFO and related PSA Revision provide that the otherwise unused credits from a participant will be ‘deemed assigned’ to other participants’ power purchases, and BPA will remit cash in the amount that is so deemed reassigned. RFO, Appendix H, Sections #.3.3 and #.3.4. To assure that there are in fact adequate power receipts from other customers, BPA will delay the remittances until about seven weeks from the end of the month in which the unused Prepayment Credits arise. RFO, Appendix H, Section #.3.4.

This qualified obligation to remit cash based solely on the existence of power sales is consistent with the notion that the power prepayments BPA receives are in fact for the purchase of power; however, it places some risk on the participants that BPA will in fact have adequate additional power sales to generate the funds to make the cash remittances from the deemed assignments. On balance, BPA believes that the risk of such an event is very low but notes that customers are free not to submit Offers if they perceive the risks to be too great. Alternatively, a customer that wishes to submit one or more Offers can simply price in a risk premium in its Offer(s).

In a related issue, team members also expressed the concern that they may be without recourse if they were to have a balance of unused credits at the end of the term of the current PSAs. BPA has agreed to carry over the crediting obligation past the term of the current PSA to any later power sales agreements the customer may have with BPA, but not beyond November 30, 2032. RFO, Appendix H, Section #.3.3. This assures that the prepayment does not commit BPA to a specified power sale to the participant beyond the 20-year power sale contract term limitation in the Bonneville Project Act. 16 U.S.C. § 832d(a). That provision of the Bonneville Project Act states that BPA power sales in general “shall be effective for such period or periods, including renewals or extensions, as may be provided therein, not exceeding in the aggregate twenty years from the respective dates of the making of such contracts.”

By contrast, BPA will agree that its obligations to provide cash remittances from deemed assignments are indefinite in term until satisfied. BPA has included specific terms in the Revision to assure that the foregoing obligations survive the term of the current PSA. RFO, Appendix H, Section #.3.3(2).

Issue 9. Addressing Interest Rate Environment Risk / Market Rate Adjustment.

In pre-development, team members expressed concern that for BPA to obtain genuine interest in participation from customers, the participants would need a high level of assurance of realizing the benefits of participation. Their main concern was that interest rates generally could increase, perhaps substantially, between the Offer date and the time that customers made commitments to issue bonds to fund their Prepayments. This period could be nearly four months. Winning participants plan to fund their Prepayment(s) upon an assumed borrowing rate. Should that assumed borrowing rate increase substantially

between the time the participant submits the Offer(s), and the time it sets the borrowing rate by pricing Bonds (including bank loans where the participant receives no advance rate lock from its bank), the participant could be financially harmed. More likely, the participant would make its Offer baking in a large risk premium to cover the risk of a substantial intervening increase in the general interest rate environment.

BPA weighed the options, in consultation with members on the Regional team. While there were limits to the extent BPA could fully insulate participants from changes in their true, customer-specific, borrowing costs, BPA was able to allow for an option to provide a uniform adjustment mechanism available to all Offerors based upon a readily verifiable published interest rate index. RFO, Paragraph 5. For the index, BPA has resolved to use yields on 10-Year U.S. Treasury securities, which are notably liquid investments and for which up-to-date information is readily sourced. BPA believes that a 10-Year term maturity is a good proxy for the Program because participants are likely to issue debt instruments with level debt service matching the level Prepayment Credit streams from associated Blocks. The average weighted maturity of debt using the crediting period (through FY 2028) is a little under 10 years.

The Market Rate Adjustment mechanism takes the difference, negative or positive, in the 10-Year Treasury rate published the day before the Offers are due to be submitted (November 29, 2012) and the 10-Year Treasury rate published on the date the participant locks in (or seeks to lock in) its interest rate for its associated debt (Lock-In Date). Each participant opting-in to this Market Rate Adjustment is free to establish its own Lock-In Date (up to a time shortly before the Prepayment is due to be paid).

Thus, the original accepted Prepayment amount for an Offer (as set under the Market Clearing Purchase Price) will increase or decrease depending on the implied change in the discount rate applied to the future stream of power revenue credits the participant will receive for the Prepayment. BPA will allow the participating customer to elect to take this option for as many of its Offers as it wishes, but the customer must make the election in its related Offers.

While the Market Rate Adjustment protects participants, it could result in BPA's incurring a higher cost for the Program than BPA would otherwise prefer to bear. If intervening interest rates were to increase substantially, then the Prepayment amounts to be received would decrease, thereby potentially increasing the cost of the Program to an unacceptable level. Therefore, BPA has included a Market Rate Adjustment Cap, expressed as a dollar amount, to limit its exposure to declines in Prepayment amounts that may arise under the Market Rate Adjustment. In effect, this sets a limit or a floor on how low the Prepayment Price can fall if the general interest rate environment increases. RFO, Paragraph 5(c) and 6(c)(i). If the Adjustment Cap is in effect on a Lock-In Date, the participant has the right to exercise a Market Rate Adjustment Off-Ramp. RFO, Paragraph 6(c)(i). Depending on its view of the value of proceeding even though the Adjustment Cap is in effect, the participant may determine to proceed with its debt transaction (if the participant had indicated in its related Offer(s) that it planned to issue

debt to fund the associated Prepayment(s)), to terminate the prepay transaction, or to set a new Lock-In Date.

BPA will announce the Adjustment Cap on December 5, 2012.

For fairness, BPA will also make the option to receive the Market Rate Adjustment available to participants that are not funding with debt. This allows a participant that is financing its Prepayment with cash-on-hand (no debt issued) to lock in an incentive with certainty at a date that it selects.

Issue 10. Addressing Basis Risk / Basis Risk Off-Ramp.

As stated in the Market Rate Adjustment section above, during pre-development of the Program, team members voiced concerns about borrowing rate risk between the Offer date in November and the date of later debt commitments they have to make to fund the related Prepayments (Lock-In Date). The Market Rate Adjustment was designed to insulate participants from general movements in bond markets between the bidding process and the time of related commitments to issue Bonds. However, it is possible for participants' individual borrowing costs relative to the general interest rate environment to move over this time period as well. Numerous factors can contribute to a change in a participant's individual spread to general interest rates over time. These factors can arise from changes in a participant's creditworthiness, differing interest business sectors, changes or possible changes in law or regulation, general market developments (for example, rumors of war frequently lead to flights to credit quality), among other factors.

The spread of a participant's own borrowing cost to a publically available index (here, 10-Year Treasuries) is referred to as spread-to-Treasury basis, and the risk that that ratio or relationship could change is referred to as basis risk.

BPA agreed that debt-issuing participants would face, as pointed out in the discussions, substantial basis risk. Three solutions were explored: (i) let the participant bear the risk, (ii) use a variable Purchase Price and cap, as with the Market Rate Adjustment, or (iii) establish an off-ramp if the basis changes adversely.

Under approach (i), as noted above, participants would either shy away from bidding or lower the Purchase Price they bid, perhaps substantially, to protect themselves from basis exposure. BPA agreed that this general approach would increase non-participation or lead to very rich bids to cover the basis risk

Under (ii) the Purchase Price would float to reflect changes in the participants' spreads to Treasury. One key feature of trying to address the change in basis when compared to the overall interest rate environment as reflected in 10-year Treasury yields is that there is no obvious index or evidence for the participants' individual interest rates on their related debt. Estimating spreads is an exercise of judgment and lacks a high degree of objective transparency. Measuring the actual spread-to-Treasury would be even more difficult on the Offer date unless for some reason the related participant happened to issue bonds of

comparable tenor and other terms on the Offer date. The hypothetical character is also true for measuring spreads on the Lock-In Date, although it is likely that the participant would be in the market trying to price Bonds on such date and have some market information on actual spreads. The only workable approach BPA and the others came to was for participants to make good faith estimates of their spreads-to-Treasury on both the Offer date and the Lock-In Date.

Under (ii), BPA and team members noted that there is potential for participants to be economically advantaged, perhaps substantially if the basis risk did not materialize. Option (ii) also holds the prospect for underbidding or underestimating spreads (especially given their inherently subjective character), which would be disadvantageous to the Program and result in concerns from non-participants and non-debt issuing participants.

Under approach (iii), the prospects for undue enrichment of participants that are apparent in (ii) would be negated but it is possible that BPA and the Program could see substantial fall-off in the amounts actually prepaid if estimated spreads were to blow out. BPA, in consultation with its Financial Advisor (Public Financial Management) concluded that a 25 basis point cushion would probably allow reasonable changes in the estimated spreads while assuring a substantial likelihood that the off-ramp would not be utilized and that expected Prepayments will in fact be made.

As provided in the RFO, the amount of the movement in the basis spread between the Offer date and Lock-In Date is determined through attestations of the related participant and its financial advisor. RFO, Appendix F, Part III. The difference from 10-Year Treasuries for each of the two points in time is computed as the basis as of the Offer (Initial Spread), and the basis as of the Lock-in Date (Termination Spread). The change in the basis is then compared to the 25 basis point minimum required for the off-ramp. If the change in the basis exceeds 25 basis points, the participant is given the option to terminate its participation in the program but is not required to terminate. RFO, Paragraph 6(c)(ii)(A).

As noted, to add some comfort that the initial estimated spreads included in Offers are reasonable, BPA requires that each subject participant include a certification of reasonableness from its financial advisor on both the Offer date and the Lock-In Date, should the participant determine to exercise the off-ramp.

To encourage participation, BPA also agreed to compensate participants for reasonable out-of-pocket expense (up to \$100,000) incurred between the acceptance date and the date of the exercise of the basis risk off-ramp, should they so choose to exercise the off-ramp. RFO, Paragraph 6(c)(v).

Issue 11. Risk of Participants Bearing Out-of-Pocket Expenses.

In the pre-development discussions, team members expressed concern that they might bear un-recoupable expenses in preparing to issue bonds or take other actions to fund a

Prepayment. They felt BPA could enhance participation in an offering process if the interested customers were assured that they would not be exposed to a level of expense if their bids were accepted but they were unable to complete their Prepayment for an excused reason or if BPA terminates within its rights. BPA has agreed to remove this barrier to possible participation and will pay participants up to \$100,000 of actual reasonable out-of-pocket expenses they incur in seeking to obtain the funds necessary to make a Prepayment but only if the prepayment obligation is terminated under any of the off-ramps in the RFO. RFO Paragraph 6(d); Paragraph 6(c)(v). No reimbursement for expenses incurred in connection with preparing offers will be provided.

Issue 12. Accommodating Prepayments Financed with Debt or Cash-on-Hand.

In the earliest stage of the exploration of the Program, BPA staff envisioned that only those customers with the ability or willingness to issue bonds would be interested in participation. BPA was informed that certain customers may have the financial resources to participate without issuing bonds or may have access to bank lines that would not involve publicly-issued bonds. Thus, while the RFO has several key provisions primarily designed to accommodate bond-issuing candidates, the RFO is pointedly neutral on the source of a participant's funds: selection of winning Offers under the bidding process is based solely on the Purchase Prices offered.

Issue 13. Limitations on the Maximum Number of Blocks a Participant May Purchase.

BPA has determined to limit Offerors in the number of Blocks that they may Offer to purchase Blocks based on two concerns: (i) maintaining a prudent amount of 'general billing headroom' for each participant to reduce the possibility that BPA will have to resort to deemed assignments and the remittance of cash as provided in the Revision; and (ii) comporting with certain pre-existing covenants that place limits on BPA's and certain customers' ability to employ credits to power bills from BPA. BPA will limit the number of Blocks offered by a customer based on the lesser of (y) 50% of the smallest amount expected to be paid by the Offeror to BPA for firm power purchased during any single year from BPA FY 2014 through BPA FY 2018 ('general billing headroom') or (z) the lowest annual amount of power billing crediting capacity available to a customer after applying certain limitations on future billing credit commitments in Net Billing Agreements from BPA FY 2014 through BPA FY 2018 ('Net Billing Agreement headroom').

For (y), general billing headroom, BPA resolved to a 50% factor mainly on a subjective sense that it is unlikely that any customer will see a 50% decline in power purchases from BPA, from a conservative baseline, through the remaining term of the PSAs.

For (z), Net Billing Agreement headroom, BPA applied the provisions of the Net Billing Agreements to determine how much additional power billing credits they would allow BPA (and a related customer) to commit to.

The Net Billing Agreements are three party agreements among Energy Northwest, BPA and named preference customers. Most but not all preference customers have entered into at least one Net Billing Agreement. If a preference customer is signatory to one or more Net Billing Agreements (“NB Participant”), BPA will cap the NB Participant’s Offers in light of the covenants, which limit the amount of future net billing credits to which BPA and the NB Participants can commit to establish. RFO, Appendix B.

BPA and the NB Participants have entered into separate Net Billing Agreements to cover the costs of Energy Northwest’s Net Billed Projects. In those agreements, BPA agreed to provide net billing credits against each such NB Participant’s monthly bills for the purchase of power, transmission and related services received from BPA. These ‘net billing credits’ are applied against the NB Participant’s purchases of power or transmission service from BPA. As provided in the Net Billing Agreements, the net billing credits, together with cash payments by BPA to the NB Participants, are to make the NB Participants whole for their payments to EN.

In the Net Billing Agreements, BPA and each NB Participant have covenanted not to enter into further agreements providing for payments (including credits) by BPA to the NB Participant unless, as determined by BPA, for each future year the total expected cash value of purchases of power and transmission services by the NB Participant from BPA will equal at least 115% of the aggregate of all expected billing credits to be provided by BPA to the NB Participant under the Energy Northwest Net Billing Agreements (115% test) and any additional agreements providing for net billing.

For example, the Net Billing Agreements provide:

The Administrator and the [NB] Participant shall not enter into any agreements providing for payments [this means net billing credit obligations] which the Administrator estimates will cause the aggregate of his billings to the [NB] Participant to be less than 115 percent of the Administrator’s net billing obligations to the [NB] Participant under all agreements providing for net billing

E.g., Section 7(d) each of the Project 2 Net Billing Agreements (now Columbia Generating Station). (There is a set of identical Net Billing Agreements for each of the three Energy Northwest Net Billed Projects. While each set of Net Billing Agreements differ slightly from each other all of the Net Billing Agreements are substantially identical in this respect). Thus, a preference customer’s capacity to purchase Blocks from BPA could be constrained by the foregoing, pre-existing covenants in the Net Billing Agreements.

While it may be possible to distinguish Prepayments and Prepayment Credits from the payments and billing credits under the Net Billing Agreements, BPA has determined that the similarities are sufficient such that it will, for purposes of the Prepayment Program, treat the Prepayment Credits as being subject to the Net Billing Agreement covenants

described above. BPA notes that as of August 21, 2012, there are nearly \$6 billion in Energy Northwest bonds outstanding that are secured by the Net Billing Agreements.

Furthermore, each of the Net Billing Agreements provides that “[t]he estimates by the Administrator under this agreement of billing credits and of payments to be made by the Participant and the Administrator giving rise to such billing credits shall be conclusive.” *E.g.*, Section 7(g) each of the Project 2 (now Columbia Generating Station) Net Billing Agreements.

In view of the foregoing provisions, BPA has determined for each Participant the amount of electric power billing capacity that remains available for the application of Prepayment Credits, after applying the Net Billing Agreement covenants. BPA has used what it considers to be reasonable forecasts of a variety of factors that play into determining the amount of billing capacity available under the Net Billing Agreements for future crediting. These factors include power and transmission loads and purchases by the subject customers, power and transmission rates and rate levels, and Energy Northwest projected costs including debt service. Each NB Participant’s “Participants Share” of a net billed project is established under the related Net Billing Agreement. That percentage is applied to expected, budgeted costs of the related project to determine the amount of payments in a year to be made to EN by the NB Participant for that project. In addition, since net billing credits are applicable against both electric power and transmission purchases from BPA whereas Prepayment Credits are reflective of electric power purchased from BPA, BPA has also allocated expected transmission purchases to net billing under the Net Billing Agreements.

BPA currently funds all of Energy Northwest’s costs for the Net Billed Projects on a current basis through an arrangement for direct cash payments; however, the Net Billing Agreements (including the 115 percent test covenants) remain in effect, and net billing could be reinstated at any time. For conservatism in view of the bonds secured by the Net Billing Agreements, BPA has chosen to assume that the direct payment arrangements are not operative in determining the Net Billing Agreement headroom available for Prepayment Credits under the Net Billing Agreement covenants.

For determining Net Billing Agreement headroom, BPA has also chosen to inspect through BPA FY 2018 because that is the year that nearly \$4 billion in Energy Northwest bonds for its Net Billed Projects Nos. 1 and 3 are scheduled to be paid. The payment of these bonds will reduce net billing credits substantially.

For purposes of determining the number of Blocks a customer may offer to purchase BPA has also used annual (as opposed to monthly) amounts for determining the Net Billing Agreement headroom. Thus, if Net Billing Agreement headroom is indicated to be \$900,000 in BPA FY 2016 and that is the lowest annual amount of Net Billing Agreement headroom in the inspection period (from BPA FY 2014 through BPA FY 2018) then the maximum number of Blocks that the customer may offer to purchase is one. (Each Block is equal to \$600,000 on an annual basis, which fits under the \$900,000 Net Billing Agreement headroom amount. By contrast, this hypothetical Prepayment

participant could not purchase two Blocks because that would equal \$1.2 million, which is in excess of the \$900,000 Net Billing Agreement headroom amount.)

14. Risk of Participant Inability to Close Bond Issuance to Fund a Prepayment / Off-Ramp.

Customers expressed concern about the risk a participant bears in committing to fund a Prepayment but, through no fault of its own, the debt it planned to issue to fund the Prepayment could not be closed. BPA agreed, so has provided each participant a Prepayment off-ramp if it is unable to close its debt issuances under specified conditions. RFO, Paragraph 6(c)(ii)(B) and RFO, Appendix G.

15. Risk of Events Changing BPA's Need for or Interest in Program / BPA Off-Ramp.

BPA is interested in assuring that it retains the ability to terminate Prepayment transactions if intervening developments arise which would make it wise to halt the Program. For example, if BPA were to unexpectedly receive a large increase in its authority to borrow from the U.S. Treasury, BPA may see a declining need for the cash infusion from the Program. Thus, BPA has reserved very broad rights to terminate, suspend or delay the RFO. In addition, BPA has reserved rights to terminate Prepayment transactions for any reason, even after acceptance of Offers, provided that the Participants have not made commitments to issue Bonds to fund their Prepayments. (If BPA terminates, it has also agreed to pay certain of the participant's out-of-pocket expenses.) More precisely, BPA may not terminate the sale of a Block after the related "Lock-In Date" has been set by the participant where the participant indicated in its Offer that it planned to issue Bonds to fund its Prepayment. (The related Offer(s) must specify that the participant will be issuing debt to fund the related Prepayment(s).) This means that the participant is responsible for setting a Lock-In Date to be the day it prices Bonds. Once the Lock-In Date is set and arrives, then BPA may not terminate the related prepayment transaction. This assures the participant that BPA will not and may not back out after the participant makes a commitment to price, sell or issue related debt. Where a participant's offer indicates that it is not issuing debt to fund its Prepayment(s), the provisions of the RFO are different. In this case, BPA has the right to terminate the related Prepayment transaction(s) until March 29, 2013 (subject to paying certain of the participant's out-of-pocket expenses). BPA makes this distinction on the basis that in this case the participant has not made an irrevocable debt commitment. RFO, Paragraph 6(d).

Issue 16. Disclaimer if Customers Issue Bonds to the Public.

BPA understands that a participant may seek to issue Bonds to fund a Prepayment but BPA is also interested in assuring that any such Bonds will be issued on the credit of the issuing participant and that there will be no misapprehension that BPA is guarantor of such Bonds. BPA will require participants that issue Bonds to the public to fund a Prepayment to include a disclaimer that BPA is not a guarantor and its credit is not pledged to the payment of such Bonds. RFO, Paragraph 8(a) and RFO Appendix H, Section #.5.

Issue 17. Use of Off-Balance Sheet and Related Structures for Bonds Issued to Fund Prepayments.

In the pre-development stages, some customers and others noted that the acceptability to customers of the prospect of issuing bonds to fund a Prepayment would depend on how the bonds rolled up into their financial structures and how the debt and prepayments transactions would affect their credit ratings, coverage ratios, financial structure, and ability and authority to issue other debt for other purposes. Team members said their reliance on bonds for prepayment would require a large premium in their offers to compensate them for foregone opportunities. Almost certainly, a Prepayment would reduce a participant's future power purchase expense by more than the debt service on related bonds; however, for most utilities, electric power purchase obligations have a priority of payment that is higher than debt service. Thus, while the overall financial position of a participating customer would improve (all else equal), obligations that were formerly expense (electric power purchase) would effectively be converted to a debt service obligation to the extent of the Prepayment and the matching (presumably) debt and debt service.

A number of structures were advanced to help utilities participate in a prepayment through the issuance of bonds by another entity. These would require some form of action by BPA to consent to or otherwise allow the assignment of Federal electric power from the participant to the debt-issuing entity or otherwise to rearrange existing power sale transactions to interpose the debt-issuing entity in the power sale between BPA and the related customer. In the end, BPA decided that it would not agree at this time to its participation or acquiescence in these types of transactions, primarily on the basis that they could be read to interfere with the basic customer relationship set forth in the PSAs and could require a formal amendment to the PSAs. One of BPA's ground rules set at the start of the pre-development period was that the Region-wide PSAs were so hard won and so closely negotiated that BPA had (and has) no interest in reopening any PSA apart from an exhibit revision affecting the PSA payment terms only. Since the off balance sheet proposals touched upon the amount of electric power that would be sold by BPA to a participant and, potentially, the character of contractual relationship between BPA and the participant under the PSA, BPA halted further discussion on this path. While it is likely that future BPA power prepayment solicitations (if any) will reach the same conclusions with regard to third-party debt issuers, BPA acknowledges that not all possible structures were exhaustively analyzed financially and legally and in future solicitations (if any) BPA may be open to exploring these alternatives.

Issue 18. Non-Assignment of Prepayment Credits, Exception for Pledges.

In the pre-development stages, some team members suggested that Prepayment Credits be assignable by a participant to other entities to be used as a generic offset right against the entities' amounts owing to BPA. The thinking behind this comment was that an open ended right to assign would enhance liquidity of the Prepayment Credits to participants. If they were ever to face a need to 'cash-out' their Prepayment Credits they could sell them elsewhere. BPA has decided to limit assignments on the basis that freely assignable

Prepayment Credits would be very difficult to track and account for. This lack of reliable tracking would also have adverse impacts on the possible issuance of future tax-exempt power prepayment bonds because the use of the related proceeds would have to be tracked back to exempt users. In addition the proposal would make BPA's crediting obligations more akin to a commercial paper transaction rather than an electric power prepayment. BPA has adopted, however, a similar notion: the deemed reassignments (as discussed above). These provisions will enhance the value of the Prepayment Credit stream to the participants. In addition BPA has developed an allocation methodology for tax purposes. See Issue 20, below.

BPA has adopted a provision that states that a participating customer may pledge cash remittances to the payment of Bonds so long as the obligation for payment remains enforceable only by the related participant. RFO, Paragraph 8(b) and RFO Appendix H, Section #.6.

Issue 19. No Collusion Among Offerors.

As BPA resolved to employ a competitive offer structure, BPA decided to include a standard no collusion provision drawn from stock and bond tender offer programs to dissuade bid rigging. In pre-development some customers were concerned that the provisions might impair their ability to explore ideas with one another. The provision as drafted does not impede informational discussions. In the comment period, BPA received no comments to the draft No Collusion provision. The provision also is drafted to enable customers that are otherwise precluded from purchasing Blocks to transact with a consolidating participant that has capacity to purchase one or more Blocks and an interest in extending the benefits and risks of Blocks it may purchase to others. RFO, Paragraph 4(f) and RFO, Appendix D.

Issue 20. Tax Allocation of Use.

BPA hopes that municipal utility and PUD preference customers eventually will be able to issue tax-exempt bonds to fund their Prepayments. The United States Treasury Regulations may allow tax-exempt financing for such prepayments, if they meet certain safe harbor requirements. One of those requirements is that substantially all power received in return for the prepayment must be used to provide service to retail customers of governmentally-owned utilities that have provided retail electric service for at least 5 years prior to the date on which the tax-exempt bonds are issued. *See* Treas. Reg. §1.148-1(e)(2)(iii). If the prepaying municipal utility cannot use the purchased power to serve its own retail customers, this special rule allows excess power to be sold to one or more other governmentally-owned utilities that also have provided retail electric service for at least 5 years prior to the date on which the tax-exempt bonds are issued for the purpose of delivering that excess power to their retail customers. RFO, Appendix H, Section #.3.5(3) and (4) of the Revision is designed to help qualified municipal electric utility and PUD preference customers take advantage of this special rule. RFO, Appendix H, Section #.3.5.

Issue 21. Funding Prepayments with Taxable v. Tax-Exempt Power Prepayment Bonds.

BPA is aware of the potential for certain of its customers to issue tax-exempt bonds to fund a power prepayment as was the case for bonds issued by the Memphis Light, Gas and Water (“MLGW”) for a prepayment of power from the Tennessee Valley Authority. In BPA’s opinion, access to tax-exempt financing for funding Prepayments under the Program is uncertain because of differences between its Program and the MLGW transaction. BPA doubts any participants will use such financing in support of their Prepayments absent receipt of a private letter ruling on the matter from the Internal Revenue Service.

BPA believes that funding through tax-exempt bonds would lead to a lower cost Program cost in future solicitations (if any) and expects to work with one or more customers to seek an IRS private letter ruling confirming that the Prepayment model that BPA has developed would enable a qualifying bond issuer to issue tax-exempt debt obligations to fund its Prepayment. Such an approach could lower the cost to BPA and the Region under future Prepayment solicitations.

One consideration for BPA was whether it would initiate the Program only after a private letter revenue ruling was in hand in hopes of lowering the Program costs. BPA has decided to proceed with the Program, as initiated with the RFO, with the expectation that customers that use financing for their Prepayments will issue taxable bonds, if any. Another approach would require a substantial delay as a letter ruling would likely take at least 12 months to obtain after the ruling request is made. That means that BPA customers would not be in a position to offer Purchase Prices that are based on assured access to tax-exempt debt until early 2014. Such a delay in the Program would upend the timing that BPA has developed for the Program and is unacceptable to BPA: the amount of Prepayments sought is based primarily on Fed Hydro investments beginning in FY 2014 - 2015 and BPA’s power rate proposal for FY 2014 – 2015 will depend in great part on the amount of prepayments BPA has accepted (early December 2012) and received (late March 2013). Apart from the delay issues, BPA notes that the difference between 10-year tax-exempt (MMD) and taxable (Treasury) rates is relatively modest with the difference being 18 bps on average over the past five years and taxable interest rates being lower than tax-exempt rates since mid May 2012. In addition, the appetite of customers that are tax-exempt issuers for participating in the Program is unknown.

BPA remains interested in working with one or more exempt customers in seeking an IRS letter ruling for future Prepayment programs. BPA notes that if a favorable letter ruling is obtained, participants that are not qualified to issued tax-exempt power prepayment bonds (presumably, electric power cooperatives) may be comparably disadvantaged in submitting future offers (relative to exempt issuers) if they base their offers on the cost of debt to fund Prepayments.

Issue 22. Performance Deposit.

BPA staff originally offered for consideration a provision under which Offerors would submit a performance deposit, which BPA would hold if the Offerors' offers were accepted. The deposit would be kept by BPA if the winning Offerors did not meet their respective Prepayment obligations. The purpose of the deposit was to increase the probability that committed-to Prepayments would be made. Customers commented that their efforts to form bids and the expected benefits of completed Prepayment transactions would be adequate assurance of performance. BPA concluded that a performance deposit would materially increase the likelihood of full performance only if it was very large but that such a deposit would inhibit participation. BPA also agreed that, given the high degree of assurance that participants will obtain expected benefits from completing its Prepayment obligations, there is sufficient inducement to proceed without a performance deposit.

Issue 23. Funding Date.

In order to assure consistency and equity among participants, to streamline Program administration, to clarify the start date of credits, and to integrate Prepayment expectations into the power rate development process, BPA has established a single Prepayment funding date, March 29, 2013, applicable to all participants. BPA selected the March funding date to enable participants that plan to issue bonds adequate time between offer acceptance and funding date to develop their disclosure and price and close the bond sale. A consistent funding date also allows credits to start accruing for all participants on April 1, 2013.

PART V. PUBLIC COMMENTS AND RESPONSES

This Part V describes the comments received on the Draft RFO and the proposed Program and BPA responses to the comments. On June 27 and 28, 2012, BPA conducted two webinars with customers regarding BPA's potential power prepayment program. At the conclusion of the second webinar, BPA opened up a 15-day comment period for stakeholders in the Region to provide feedback to help inform BPA about potential concerns.

Subpart A. Comments

1. Comment from Benton PUD

Benton PUD offers the following comments in regards to the Power Prepay Program. In this document, our comments are restricted to the Prepay Program. Under separate cover, we commented on the Capital Investment Program in a memorandum dated May 11, 2012.

Benton PUD is supportive of the Power Prepay Program. Subject to our comments referenced in our May 11th memorandum, we recognize the need for BPA to find additional ways to access

capital for its hydroelectric system. As you are aware, Benton PUD has been an active participant on the Power Prepay Regional team since its initial formation. Early on, we felt it important to help design a program that would address BPA's access to capital challenge while ensuring equity among all BPA customers.

Benton PUD believes that the Power Prepay Regional Team has been a highly collaborative process, and we believe that the program design addresses the needs of both participants and non-participants in the region. We very much appreciate the leadership of Claudia Andrews and Jon Dull in seeking input from customers and acting on this feedback to design a program that reduces risks to participants.

Benton PUD has been an active participant in the Power Prepay Regional Team from its initial formation.

While we have not made a final decision as to whether to participate in the program, we feel that by being an active participant on the Team we are in a much better position to evaluate the benefits and risks of the program.

Early on, we felt it important to help design a program that would help solve BPA's access to capital challenge while ensuring equity among customers

Benton PUD believes that this has been a highly collaborative process between BPA and its customers, and we think the program design addresses the needs of both participants and non-participants in the program.

Along with BPA we are eager to understand your approach to a rating methodology on the program.

2. Comment from City of Port Angeles

We considered the prepayment program and decided not to pursue the initial offering. There does not appear to be adequate incentives to participate at this time.

The Bonneville Power Administration (BPA) recently met with City staff and the City's Industrial Transmission customer to discuss a new pre-payment program. The program is a means for BPA to secure approximately \$125 million per year for investments in the Federal Base System (FBS). BPA is promoting the program because it anticipates that it will fully utilize its \$7.7 billion U.S. Treasury line of credit by 2016. BPA plans to invest about \$500 million per year in the aging FBS.

If the City chooses to participate, it would pre-purchase a \$9.2 million block of future wholesale power, and, in exchange, would receive a \$50,000 credit on its monthly wholesale power bill for 15 years. BPA wholesale power rates will be the same for participants and non-participants. As part of the program, the City would have to offer to purchase at least one block at a cost in the range of \$5.5-\$6.3 million in today's dollars. The City's Electric Utility would have to borrow to purchase a block because it is still replenishing its unrestricted cash from the 2001 West Coast

Energy Crisis, and the use of cash for the pre-payment program may not be prudent. The anticipated net retail rate reduction for the purchase of a block is only about 0.15%.

There is some risk if the City participates that would need to be considered, and the City's authority to participate would need to be confirmed. Staff is also concerned that: BPA's anticipated acceptable rate of return for utility participants may be too low; that financing origination costs, required reserves, and typical debt coverage ratio requirements do not appear to have been considered; and that financing a block may reduce the City's ability to secure funding for its own Electric Utility renewals and replacements.

BPA plans to offer City an opportunity to participate in August, and a City response would be due in November. BPA anticipates selecting utility participants in December, and utility participants would have four months to provide funding and/or obtain financing. There are three additional offerings anticipated. For the reasons cited above, staff does not plan to pursue participation in this year's initial offering.

3. Comment from Idaho County Light and Power

I have no objection to BPA raising capital with the Pre Pay method. I have floated the Prepay to both board and Pat (CFO), but have not received any great interest in pursuing. So, especially considering our marginal size, I think it is unlikely that we will opt to make use of the Prepay option, if offered.

4. Comment from Inland Power

Thanks for the information and presentations on BPA's proposed Power Prepay Program. Inland Power appreciates the effort that went into the consideration and design of this potential program. While at this point not every aspect of the program is entirely clear to us, the key program features appear relatively straightforward and workable.

We need to indicate, however, that we are unclear how the Prepay program would fit into an overall set of BPA financing tools and the relative merits of each of those tools. It is our understanding that BPA is holding an "Access to Capital" workshop on July 26. Hopefully, at this workshop BPA's total capital funding needs (power and transmission), available borrowing authority, timing and merits of various financing options will be thoroughly discussed.

Again, thanks for the opportunity to comment on the Power Prepay Program.

5. Comment from Northwest Requirements Utilities

Thanks for the opportunity to provide public comment regarding the BPA Power Prepay Program. We appreciate all of the public meetings BPA held during the formulative stages of this program, as well as the webinars and one-on-one meetings between utilities and their Account Executives.

NRU as a trade association has not taken a formal position regarding the Prepay program, nor have we as staff provided recommendations to individual utilities as to whether or not they should consider participating in the program. Individual utilities need to make that determination based both on how they would be impacted financially during the term of the program, and whether they believe Prepay is a preferred or acceptable approach for BPA to address the issues of long term access to capital for the preservation, replacement or expansion of FCRPS assets.

Prepay Program Technically Designed Well

With regard to the basic terms of the Prepay we believe that BPA has done a good job of designing a program that is workable, relatively easy to administer, capable of generating large amounts of capital, and relatively fair between utilities that are participating or not participating in the program. The \$50,000 monthly Prepay blocks extending through the term of the Power Sales Contract makes sense, as does BPA's flexibility to continue to offer the program in subsequent rate periods as needed to raise capital. The auction, with BPA establishing a marketing clearing price, creates a basic sense of fairness which we prefer, even if BPA leaves a few dollars on the table by not pursuing more aggressive bi-lateral price negotiations with participants.

NRU particularly appreciates the fact that BPA modified the original program design to allow many of our members to participate, rather than offering Prepay only to BPA's larger customers. This goes a long way to eliminate potential differences of opinion about the program based on utility size. Also, BPA's involvement with the Cooperative Finance Corporation (CFC) helps facilitate a financial institution being available and familiar with the program for NRU members that may be interested in pursuing Prepay.

While generally commenting on the financial characteristics of the program, we have offered no advice to our members as to their legal authority to enter into the program, or the consequence of participating in Prepay regarding their financial position. However, we would strongly encourage prospective participants to fully consider these issues.

Unknown Whether Support for Prepay Program Will Reach Critical Mass

The schedule calls for the BPA Administrator to make a decision in September as to whether the Agency will decide to offer the Prepay program, consistent with the design that has been discussed in the region. Based on our participation in meetings and in discussions with others in public power, it is not clear whether the critical mass will be achieved for the program to be implemented. We are unaware of individual NRU members that have made a decision at this time to participate in the program, if it is offered. Most likely if critical mass is achieved within the public power community, BPA will still need to vigorously examine other strategies to provide access to capital, which could be used in conjunction with the Prepay program.

Relationship to Access to Capital Generally and Needed Investments in the Hydro System

It is difficult to offer a fully informed opinion regarding the Prepay program absent a broader discussion of how the particular financing tool fits in the context of BPA's overall access to

capital needs and the strengths and weaknesses of alternative funding mechanisms. Also, to the extent Prepay has been explained as a financing mechanism to rehabilitate or improve the FCRPS generation assets, it seems to us that there has been insufficient discussion during IPR as to what constitutes a significant project that needs to be expensed versus capitalized. In the March 8 CIR kickoff materials (page 44) BPA identifies the need for “a large capital investment program level of about \$250 million per year provides a stable program that can be efficiently resourced for at least 15 years.” Yet in the FY 2012 – FY 2013 rate case we had significant discussion about some of the work at Grand Coulee, and whether that work should be expensed or capitalized. BPA concluded that the work needed to be categorized as maintenance, and therefore was expensed. It would be helpful to have a better understanding of the relationship between the “large capital” proposed investments in the CIR Federal Hydro Asset Strategy and the Agency’s forecasted expectations for large expense items that help to preserve the FCRPS assets.

We fully recognize that given the proposed capital program and the use of existing financing tools, and the extent to which they are applied, BPA will run out of U.S. Treasury borrowing authority in 2017, and will fall below the threshold to assure a \$750 million Treasury liquidity facility in 2016. At the March 8th IPR meeting, BPA identified the need for over \$2 billion in new financing tools, \$1.7 billion of which is from the proposed Prepay program. If fully implemented, these tools would allow Treasury borrowing authority to be extended to 2022, thereby meeting the Agency’s “10 year target” for remaining Treasury source availability. As BPA shows, this currently projected exhaustion of borrowing authority can in part be mitigated through use of Transmission reserves (BPA suggested \$300 million) and a very aggressive third party financing program for transmission (hopefully 50% or more rather than 30%). Still, something may likely need to be done to solidify the funding sources for the hydro system.

BPA Finance staff provided useful information in workshops comparing the costs of Prepay over time to more traditional forms of possible revenue financing within the Power rates. But the BPA analysis seemed to be more along the lines of advocacy for the financial advantages of Prepay rather than a full vetting of the pros and cons of all of the options. Prepay provides upfront money to BPA from customers, while reducing future revenues recovered from participating customers’ power bills. Revenue financing allows for a decision in each rate case as to amounts that are included in rates to pay for capital projects, likely with a higher front end cost, but without a reduction of Agency revenues from customers in subsequent rate periods. Arguments can be made in favor of either approach.

During the last week in July BPA will have follow up IPR meetings, including an extensive workshop on access to capital. This would be a particularly good forum to delve into the pros and cons of the various funding tools, and to show how such tools would impact the overall size of updated projections for the overall size of Power and Transmission rate increases. For example, a financing tool that could have a 1% impact on Power rates may be more palatable if the projected overall power increase is in the mid to higher single digit range rather than double digit. (Keep in mind that these are NRU staff comments and the NRU Board has not taken a position yet on these matters.) Also, having better information about alternatives may spark more enthusiasm for utilities to take another look at Prepay.

The overall size of the capital program is an issue that requires regular attention, both internally within BPA and by the customers. However, much of the capital program for hydro (holding aside the Keys Project) is generally well documented. The likely tradeoffs will involve spreading work over a longer period of time and the related consequences in terms of higher costs in the future, or risk of equipment failures that could have been avoided. If BPA wants Power Services' customers to support a new or expanded source of revenue for the FCRPS capital program, then we need more information about the big picture, particularly the relationship to overall borrowing authority and related transmission investments.

Relationship Between Hydro and Transmission Capital Needs and Borrowing Authority

Whether BPA uses Prepay, more traditional revenue financing, or a new creative financing tool, if the Agency wants Power customers to commit to a new source of funding for the hydro capital program, it needs to first address and resolve the relative distribution of the remaining borrowing authority between the Power and Transmission functions. For example, if BPA shows about \$4 billion of borrowing authority beginning in FY 2012, and then running out of borrowing authority in 2017, shouldn't we have an understanding as to how that authority will be allocated by functional area? Why would Power customers take on more short term responsibility for funding FCRPS improvements if the consequence is merely to shift more of the remaining borrowing authority to transmission projects? BPA isn't proposing that, but there is nothing currently in the written materials about Prepay that would prohibit it from happening.

BPA needs to address these questions at the July 26th workshop. On a related note, if Transmission has additional tools available, such as 3rd party financing and \$300 million of reserves, how would this be factored in the remaining use of borrowing authority between Transmission and Power? In examining the Transmission capital program, NRU members might not support certain projects that diminish remaining Treasury borrowing authority, but would not oppose their moving forward if they used third party financing. Likely all customers will not agree on an assignment strategy because they will all want as much of the lower cost Treasury authority available as possible. However, overall interest rates are low enough to still make projects affordable using non-Treasury sources of capital.

We recognize and appreciate that BPA is working on a new internal process for capital project prioritization, and that such process will not be completed to be used as part of this IPR process. While that may be the case, the NRU staff believes that as part of this IPR, BPA should provide additional direction at this time for customer comment as to how the remaining borrowing authority might be segregated between the major functions of the Agency, particularly Power and Transmission. We would welcome the opportunity to discuss this with you at or before the July 26th workshop. However, it did not seem appropriate for us to be making any proposal in this document where the primary focus is comments regarding the Prepay program.

We need to talk about cost comparisons on this versus LF. Both taxable and tax-exempt and how we think we can get tax-exempt financing in the future but overall interest rates are low so we are willing to do it taxable the first time. It also allows Coops to participate which is important

Conclusion

We will have additional comments to offer at the July, Access to Capital workshop. Our comments will address both Prepay and other financing tools, how the remaining Treasury borrowing authority could be used, as well as comments about the size and shape of the proposed capital program. If you would like to discuss any of that in advance, please let us know. We would like to share the outcome of these discussions at the August 1st NRU Board meeting so our members have more of a contextual background to make an informed decision regarding the Prepay program. Thanks for your attention to these comments.

6. Comment from PNGC Power

PNGC Power has been participating in the collaborative effort to develop a power prepayment program. That effort has been a fairly intensive nine month development process focusing on the merits and details of creating a viable prepayment program that could provide BPA with additional sources of capital for the power business line. We found the development work to be well organized and BPA's participating staff was quite capable.

We think the prepayment program concept has undergone sufficient development to proceed to the offer stage. Having said that, PNGC or our members have not determined whether to participate in the Prepayment Request for Offer should BPA proceed with the program. We are still evaluating all of the program's benefits, risks and details in order to determine any subsequent role.

7. Comment from Public Power Council

Introduction

Thank you for the opportunity to comment on this proposal and for the hard work BPA staff members have put into developing financing proposals for the agency's capital needs. At this time, these are PPC's preliminary comments regarding BPA's proposed prepay program. We will have additional comments, based on the discussion at BPA's July 28th meeting on access to capital, and once PPC better understands the short-term rate-impacts of prepay. Additionally, we have just received BPA's presentation to be used with the rating agencies, and we would like to evaluate that as well.

Prepay has been proposed by BPA as a method for addressing the gap between BPA's proposed capital spending program over the next ten years and the limits on BPA's borrowing authority. Facing similar issues, TVA successfully negotiated a prepay agreement in 2003 with Memphis Light, Gas, and Water, as well as other TVA customers. Similar prepay agreements are common in the natural gas industry.

BPA's prepay proposal has a number of desirable characteristics. In particular, BPA has correctly established a limit on the implicit interest rate that it is willing to pay under the prepay program, ensuring that the cost of using prepay is not greater than the cost of alternative forms of non-Federal financing.

BPA has also included a “consolidator” provision in the prepay proposal, which allows smaller utilities to participate in the prepay program by allowing them to jointly acquire a prepay block. BPA’s hypothetical prepay example requires a minimum commitment of \$6.3 million to acquire a block of prepaid power.

Characteristics and Functioning Of The Prepay Program

It’s important to understand that prepay could be viewed as a form of revenue financing, with some characteristics that make it look more like a bond than standard revenue financing. A prepay agreement with a utility gives BPA money up front for capital investments, which will be repaid over time via the bill credits that BPA will provide the utility providing the prepayment.

Once a prepay agreement has been signed, BPA (and ultimately, BPA’s customers) is locked into reimbursing the prepay participant via bill credits for the remaining length of the contract (until 2028). Given the amount of time that the prepay rate credits are spread over, the potential rate impact of prepay is considerably less than direct revenue financing.

For example, in the hypothetical prepay example that BPA has been using, \$504 million would be raised via prepay in the near-term, only \$96 million of which would be returned via rate credits in the upcoming rate period. Whatever the rate impacts of prepay, they are clearly less than revenue financing the whole \$504 million over the two years of the upcoming rate period.

Prepay is similar to bond financing in that BPA customers commit to paying off a capital investment over an extended period of time, not just over a two-year period.

PPC has not advised its membership regarding the desirability of participating in the prepay program, nor has PPC has advised our membership regarding their legal authority to participate in the program. However, it is important to determine that participants can make such an advanced payment of power costs, to ensure that the program can be implemented as envisioned.

The Short-Term Rate Impacts Of Prepay Are Unclear

Repeated discussions with BPA Finance staff regarding the short-term rate impacts of prepay have convinced PPC that this is a highly complex issue, given its interactions with BPA’s nonmargin cash accumulation and other BPA financing steps, such as the proposed extension of Energy Northwest debt. Without a clear understanding of the near and longer-term rate impacts, it is premature to offer a definitive view of this proposal.

We understand that BPA staff at the July 28th access to capital meeting will provide more information on the short-term rate impacts of prepay, and we will include in our IPR comments a response to those forecasted short-term rate impacts.

Continued Importance Of Prioritization

PPC would, however, like to reiterate our previously filed comments regarding the importance of prioritization in addressing BPA's capital funding shortfalls. We would like to work with the agency to improve BPA's current capital prioritization proposals. BPA has indicated that prepay has tentatively been sized to fund BPA's hydro capital investments, but this begs the question of where the alternative funds that otherwise would be used to fund hydro capital investments will be going. A more in-depth discussion of the interrelationship of different financing tools and the level of usage between business lines is needed.

Thank you for the opportunity to submit these comments.

8. Comment from Springfield Utility Board

Thank you for the opportunity to submit comment regarding BPA's Power Prepayment Program. As it has been described, SUB in support of the proposed program, and would offer the following feedback.

Block Terms

In BPA's presentation under *Auction Specifics*, block terms are listed as, "...offered for a block of monthly credits on the customer's power bill for 15 years (or the remaining term of the Regional Dialogue contracts). SUB would be in support of a shorter term for blocks. Specifically, SUB would be more interested in a shorter term covering one or even two rate case periods. Additionally, the term of blocks should be clearly defined in BPA's draft *Prepayment Term Sheet: Request for Offers / Transparent Auction*, but are not mentioned.

Request for Offers

BPA's Request for Offers (RFO) addresses both those customers who would be issuing debt and those who wouldn't. For those electing the prepayment option without needing to issue debt may find the 27 page RFO to be lengthy and confusing, particularly in the case of presenting a prepayment option to their governing body (board) for discussion and decision-making. SUB's recommendation would be to have two separate RFOs; one for those customers intending to issue debt to participate and one for those customers who do not need to issue debt to participate. An RFO specific to the customer will help in directing discussion related to approval of participation.

Thank you again for the opportunity to comment. Please recognize that these comments are not intended provide feedback, and do not necessarily express SUB's intention to participate in BPA's proposed Power Prepayment Program.

9. Comment from Tacoma Power

Tacoma Power has participated with the Regional prepay team since its inception. We applaud BPA for the creativity and energy devoted to exploring a potentially innovative solution for

meeting future capital needs while also keeping the region informed and involved. BPA is an important business partner of Tacoma Power's and we welcome the opportunity to continue to work as a member of the team to find the best sustainable solution for the region.

Since the beginning of the prepay discussions, we have asked BPA to provide a holistic analysis. The two largest components that need clarity are the cost impacts on BPA's revenue requirement in the cases, 1) where its treasury borrowing authority is not raised from the current cap and there is no participation in the prepay, and 2) where BPA implements its proposed prepay program to substitute for reduced treasury borrowing authority and there is participation in the prepay.

These two cases will require many assumptions to better understand the inherent uncertainties and to ensure BPA's capital requirements are sufficient/optimal for maintaining its infrastructure. Other details are also of interest, including ensuring customer participants in the prepay program can remain financially neutral, or indifferent in the context of their own financial health. Although there are many assumptions that must be made in the face of considerable uncertainty, particularly in projecting rates, Tacoma Power will need to understand these impacts to make a decision that is in the best interest of our customers.

Regardless of the final disposition of the prepay program and Tacoma Power's participation decision, we believe the capital access issue is a clear opportunity for BPA to fully examine the effectiveness of its capital planning process. It is well known that many of us in this industry face very similar issues of aging infrastructure and limited access to capital. Therefore each of us has sufficient incentive and motivation to take a reasonable measured approach to prioritize expenditures and apply a high level of fiscal discipline in developing our long-term capital plans.

We truly appreciate BPA's efforts to fully explore and communicate the issues, alternative solutions and impacts of this work to its customers and other stakeholders. We look forward to continuing the dialogue and working with BPA staff on this important issue.

Subpart B. Responses to Comments

1. Response to Benton PUD

BPA appreciates the feedback from Benton PUD and looks forward to continuing to working together in the future.

2. Response to City of Port Angeles

BPA thanks the City of Port Angeles for its response. BPA has had input that the credit markets will look favorably on the Program and customers that do not have cash reserves should be able to find funding through public debt offerings or privately placed debt. BPA believes the Program is designed to provide strong protection for the prepaying participants.

3. Response to Idaho County Light and Power

BPA thanks Idaho County Light and Power for its response.

4. Response to Inland Power

BPA appreciates the comments from Inland Power. BPA's total capital funding needs and available financing tools were addressed at the Access to Capital workshop held on July 26, 2012. In addition BPA will be releasing a draft access to capital plan for public comment in the near future.

5. Response to Northwest Requirements Utilities

BPA appreciates NRU's response. BPA also thinks that an auction process for the Program incorporates an aspect of fairness for participants although each utility will have a different cost of capital, which will mean varying incentives from participant to participant. Future BPA public meetings can be used to address NRU's request to have a better understanding of the relationship between the "large capital" proposed investments in the CIR Federal Hydro Asset Strategy and the Agency's forecasted expectations for expenses to help preserve the FCRPS.

At the July 26, 2012 Access to Capital meeting, BPA indicated that current forecasts for capital spending from fiscal years 2012 through 2022 will require an additional \$3.5 billion in capital than BPA currently has available from the Treasury if you include reserving \$750 million of borrowing authority for the Treasury line credit. In each scenario, BPA included the use of \$15 million per year in currently available transmission reserves as a source of capital, totaling \$165 million over 11 years. The \$165 million is less than BPA's initial proposal of utilizing \$300 million in transmission reserves. The reduction occurred because utilizing \$300 million in transmission reserves would increase the chance of planned net revenue for risk in BPA's upcoming rates.

BPA believes that it is extremely unlikely that a participating customer would issue tax-exempt bonds in connection with the Final RFO because it would very likely require a favorable Internal Revenue Service letter ruling. Such a ruling cannot be achieved in the timeframe for the Final RFO. While tax-exempt bonds have a lower cost of financing, given the currently low interest rate environment and the compression between tax-exempt and taxable rates, the cost of taxable bonds is low enough that the financial impact of customers using taxable bonds for purchasing Blocks, and thus offering a lower amount for a Block relative to using tax-exempt financing, is acceptable to BPA.

While the cost to the Agency of the Program may be somewhat higher than the cost of lease financing, the final cost will be dependent on BPA's reservation price and the market clearing price. If future debt issuances by participants are tax-exempt, then the cost could be expected to be lower than lease financing, subject to actual market conditions at the time.

With regard to the issue of allocation of borrowing authority, BPA believes it would be imprudent to at this time address and resolve the relative distribution of the remaining borrowing authority between the Power and Transmission functions. First, as we have indicated, the Prepayment Program provides a certainty of funding Fed Hydro capital project costs that does not otherwise exist, given the constraints on BPA's capital. Second, BPA's capital allocation process is an on-going one that attempts to ensure that capital is prioritized to highest needs.

BPA's Treasury borrowing authority is not, for the most part, limited to power or transmission investments, but is available to meet the agency's needs. Given the diversity of the agency's capital needs, it is appropriate that they be prioritized on an on-going basis, taking into account all the then available and reasonable foreseeable facts and circumstances.

6. Response to PNGC Power

BPA thanks PNGC Power for its involvement in the collaborative efforts for the prepay program. BPA understands that PNGC and its members have not determined whether to participate in the program.

7. Response to Public Power Council

BPA appreciates PPC's comments. Future stakeholder meetings will address the issue of capital investments and BPA's prioritization of future capital investments. Potential power rate impacts of the proposed Program and other financing tools were presented at the July 26, 2012 Access to Capital meeting.

8. Response to Springfield Utility Board

BPA would like to thank SUB for its comments. Block terms are set at 15.5 years because that coincides with the final term of the PSAs. In response to the suggestion that BPA consider a term shorter than 15 years, BPA notes it would either need to dramatically reduce the size of the Program or experience upward power rate effects if it were to provide Prepayment Credits over a shorter period. BPA will take steps to ensure the 15.5 year term is clarified. While BPA appreciates the suggestion to simplify discussion by issuing two RFOs, BPA believes it has adequately and fairly accommodated debt-issuing and cash-funding participants. BPA has decided to issue only a single solicitation in this phase of the Program.

9. Response to Tacoma Power

BPA welcomes Tacoma Power's comments. An analysis of the issues facing BPA's access to capital was provided in a stakeholder meeting held on July 26, 2012. The Program is designed to provide capital funding to BPA while meeting its statutory requirements. The impact of the program on BPA's revenue requirements was presented at the July 26 meeting as well.

PART VI. CHANGES FROM THE DRAFT RFO TO THE FINAL RFO

The following describes and explains changes in the provisions of the Final RFO (and Appendices) compared to the Draft RFO (and Appendices). A Comparative version of the changes is included as Attachment F to this Record of Decision. Many changes are stylistic and are not explained. Certain changes are repeated throughout the Final RFO (and Appendices) and a separate explanation for each instance of a repeated change may not be provided.

RFO

Paragraph 1. The Final RFO adds a more descriptive title to the RFO and adds the date on which the Final RFO was issued (this change is made throughout).

Paragraph 2. The Final RFO clarifies that to make an Offer a preference customer must have adequate power purchase billing capacity, as provided in Paragraph 4(b) of the Final RFO. For accuracy, the RFO uses the term “Revision” rather than “Amendment” to describe the revision to Exhibit D of the PSA that must be executed to implement the Prepayment Credits (Revision). This change is reflected throughout the RFO.

The Final RFO now uses “contract(s)” and “Prepayment(s)” to reflect that each Offer is separately accepted and that each such acceptance results in an individual contract for a Block. This change is reflected throughout the Final RFO.

Paragraph 2(a). The Offer window is clarified to be a 24 hour period. For simplicity, the terms “Offer Deadline” and “Prepayment Deadline:” are replaced with dates certain. The Final RFO adds, for emphasis, a statement that Offers must be e-mailed by a date/time certain.

Paragraph 2(b)(i). The Final RFO clarifies that BPA may change the communications protocols established in Paragraph 2. It also adds a general catch-all that communications limitations on the RFO will lift when Offers are accepted.

Paragraph 2(b)(ii)-(vii). In response to internal concerns about the flow of information in this solicitation process, paragraphs 2(ii)-(viii) were added in the Final RFO. BPA is balancing concerns about the competitive character of the solicitation and the need for more information flow and assistance in preparing documents. The acceptance of Offers in this particular solicitation is straightforward because it is based solely upon the Purchase Prices that are bid. In BPA’s opinion, there is little chance for assertions of favoritism, bias or unfair bidding advantage that could come into play in this competition. Furthermore, the bid window is 24 hours so inside information on the offered Purchase Prices will be less available for possible inadvertent revelation. BPA will establish internal controls so that bids are closely held until the acceptance period is over and BPA will close off communications two weeks prior to the time period for the submission of Offers.

On the other hand, BPA expects that preference customers will need further assistance in developing a detailed understanding and appreciation of the Program and RFO insofar as their participation or potential participation is concerned. BPA believes that additional outreach is needed to assure that maximum participation is achieved. BPA could delay the RFO issuance date but does not think a delay would have any notable benefits for communications, and thinks that the certainty of having a Final RFO will aid the preference customers in advancing their deliberations on their participation in the RFO, if any.

Paragraph 2(b)(ii). In the Final RFO, BPA encourages the use of e-mailed questions and answers, which will be available to all Interested Parties. This section includes a defined

term, “RFO Questions,” which is narrowly defined to mean questions relating to a customer’s potential Offers. This is intended to allow BPA to discuss questions about the Program generally, including with non-Interested Parties.

Paragraph 2(b)(iii). Self explanatory.

Paragraph 2(b)(iv). The Final RFO provides that BPA will help customers fill out the template forms necessary for an Offer. BPA will not fill out the Purchase Price or other substantive features of an Offer.

Paragraph 2(b)(v). BPA reserves the ability to engage in limited “Direct Discussions” with Interested Parties. There is no requirement that these discussions be recorded or that the information in the discussions be shared with Interested Parties. The provision includes limits on the character of the discussions, more particularly that the Substance of the customers’ potential participation will not be discussed. For clarity, basic administrative matters relating to the RFO may be discussed between BPA and Interested Parties.

Paragraph 2(b)(vi). Under the Final RFO, BPA is imposing a quiet period on communications, which will begin two weeks prior to the time that Offers are to be submitted.

Paragraph 2(b)(vii). A preference customer’s main point of contact on the RFO will be its Power Services Account Executive (AE), except as otherwise provided. The Draft RFO had identified personnel in BPA’s Finance department as the point of contract.

Paragraph 2(b)(viii). Under the Final RFO, Offers are to be submitted in PDF format to a central BPA email address and it is suggested (but not required) that each Offeror send an electronic carbon copy (cc) to its AE. BPA is expecting that AEs may provide a basic review of Offers as submitted to attempt to identify any obvious administrative or documentary errors (missing signatures or initial blocks/ incorrect dating of documents, etc.). Executed paper originals of the Offers (especially the Revisions, which are the document that cements the prepayment contract(s) when executed by both BPA and the related Offeror), must be mailed by each Offeror to its AE promptly so that the AE will have executed originals of the Revision to counter-sign and return to winning Offerors.

Paragraph 2(c). In contrast to the Draft RFO, under the Final RFO, BPA will not announce in advance of the date that Offers are due to be submitted the maximum number of Blocks that it will purchase. Rather, BPA will announce the maximum aggregate dollar amount of Offers it will accept—see Paragraph 2(c)(ii) of the Final RFO. The original language was erroneous because BPA would have been unable to predict the clearing price and therefore the aggregate number of Blocks it would accept. Also, the term “Credit Commencement Date” is replaced throughout by a date certain as part of BPA’s resolution to specific dates for the RFO and Program.

Paragraph 2(d). The Final RFO clarifies that while BPA may amend the RFO through a date certain, BPA may nonetheless suspend, delay or terminate the RFO without regard to the time limitation for amending the RFO.

Paragraph 3(b). The Final RFO adds a provision to the effect that while Prepayment Credits are fixed there is no intention to interfere with the possibility that Prepayment Credits may roll forward to future periods.

Paragraph 3(c). The Final RFO adds new wording to the effect that a customer may pledge cash remittances by BPA, which is an exception to the general limitation on assignment.

Paragraph 4(a). Changes in this paragraph clarify the number of originally executed forms that Offerors must submit for an Offer and notes that a single Offer form may be used to submit more than one Offer if the bundled Offers are identical or differentiated only by Purchase Price. The Final RFO adds the word “maximum” for increased consistency with and as a more accurate description of the clearing price structure used in the Final RFO.

Paragraph 4(b)(i). The Final RFO adds more precise wording to describe the relationship that the Net Billing Agreements have with the number of Blocks a Customer may offer to purchase. The Final RFO replaces “BPA Fiscal Year” for “Contract Year” to remove a possible ambiguity.

Paragraph 4(b)(ii). The Final RFO adds a provision assuring that a preference customer may obtain, confidentially from BPA, the information on the maximum number of Blocks the customer may offer to purchase.

Paragraph 4(c). The Draft RFO included information in Appendix C about the potential means by which a customer may indirectly participate in the purchase of Blocks when it may otherwise be precluded. This has been deleted as unnecessary. A brief version of the logic of former Appendix C is included in the new text to assure preference customers that BPA does not find such arrangements objectionable.

Paragraph 4(d). In the Draft RFO, BPA originally proposed to provide preference customers with the 10-Year Treasury yields. In the Final RFO, BPA has provided a link to the information to assist customers in readily finalizing and making their Offers. BPA will not provide such information to the customers.

Paragraphs 4(e), (f) and (g). In contrast to the Draft RFO, the Final RFO, rearranges the order of these paragraphs to improve logical flow; however, the wording remains substantively similar. The Final RFO adds a clause in Paragraph 4(g) (formerly Paragraph 4(e) of the Draft RFO), emphasizing that the amount of a Prepayment may differ from the Market Clearing Purchase Price if the Market Rate Adjustment has been elected. This emphasis is made throughout the Final RFO.

Paragraph 4(h)(i). The Final RFO uses dates certain in lieu of definitional dates. The Final RFO adds a provision to assure that Purchase Prices will be the determining factor in acceptance and that elections made in an Offer to opt-in to off-ramps or the Market Rate Adjustment will not affect selection of accepted Offers.

Paragraph 4(h)(ii). The Final RFO uses a date certain. The Final RFO clarifies that if an Offer is re-submitted because BPA identified an error in the Offer as submitted, the Purchase Price may not be changed.

Paragraph 4(h)(iii). The wording in Paragraph 4(h)(iii) of the Draft RFO has been deleted. BPA originally proposed to establish a loop to check the reasonableness of Initial Spreads for customers opting-in to the basis risk off ramp of Paragraph 6(c). BPA has determined this is unnecessary and would compound timing issues in the process for accepting Offers. The certification of the Financial Advisor is an adequate safeguard for assuring the reasonableness of the Initial Spread.

Paragraph 4(h)(iii). Most of the text of Paragraph 4(h)(iii) of the Final RFO was originally found in Paragraph 4(h)(iv) of the Draft RFO. This is the result of re-numbering the paragraphs in light of the deletion of text, as discussed immediately above. The Final RFO adds a requirement for BPA to announce the aggregate dollar amount of Prepayments it has accepted (the actual amounts received may change depending on the operation of the Market Rate Adjustment, use of off-ramps, and other factors). Paragraph 4(h)(iii) of the Final RFO also adds 'delivery' by BPA of counter-executed acceptances as part of the acceptance process. In view of the possibility that an Offeror may offer to purchase Blocks at differing Purchase Prices and the resulting possibility that not all Offers it submits may be accepted at the Market Clearing Purchase Price, the Final RFO provides that BPA's acceptances shall indicate the number of offered Blocks that BPA has accepted from the Offeror.

Paragraph 4(h)(iii)(B). The material in this Paragraph was formerly in Paragraph 4(h)(iv)(B). The Final RFO clarifies the process for invitations, to be made to Offerors whose Offers were lower than the Market Clearing Purchase Price, to re-offer at the Market Clearing Purchase Price.

Paragraph 4(j). The Final RFO adds a date certain.

Paragraph 5. The Final RFO adds Treasury web site links for determining the yields on 10-Year Treasuries. It also clarifies that an Awarded Customer is free to use any published yield on 10-Year Treasuries during the Lock-In Date (prior to 3:00 PM Pacific Time) for purposes of calculating the Market Rate Adjustment and/or triggering the Adjustment Cap off-ramp under Paragraph 6(c)(i). By contrast, for determining the Termination Spread basis risk off-ramp under Paragraph 6(c)(ii)(A), the yields on 10-Year Treasuries at the end of the business day prior to the related Lock-In Date will be used.

Paragraph 5(a). The Final RFO uses a date certain for the last day for a Lock-In Date and the default Lock-In Date. Paragraph 5(a) of the Final RFO now references Appendix C, which has been revised to be a form that customers are encouraged to use to apprise BPA of a Lock-In Date. There is no requirement that the customer use this form.

Paragraph 5(b). The Final RFO adds a provision emphasizing that electing the Market Rate Adjustment in Offers is optional.

Paragraph 5(c). In the Draft RFO, BPA proposed using a percentage (based off of the yields on 10-Year Treasuries, expressed in basis points) as the Adjustment Cap. In the Final RFO, BPA has concluded that it will use a dollar amount per Block. Paragraph 5(c) of the Final RFO adds, for emphasis, a statement explaining the possible adverse effects to Awarded Customers if the Adjustment Cap goes into effect.

Paragraph 5(d). The Final RFO adds a date certain. The Final RFO adds a provision requiring BPA to identify the aggregate amount of Prepayments that a customer is to pay after adjustment under the Market Rate Adjustment, if opted-in to.

Paragraph 6(a). The Final RFO adds a date certain. The Final RFO adds for emphasis a statement that BPA may terminate a Prepayment transaction with a non-Bond issuing customer as late as March 28, 2013, even if the customer has theretofore transferred Prepayment amounts to BPA.

Paragraph 6(c)(i). For clarification, the Final RFO provides that a contract for Prepayment may be terminated by a customer if the Adjustment Cap is in effect. The Final RFO adds an emphasis that the customer may reset the Lock-In Date in lieu of terminating the related Prepayment contract.

Paragraph 6(c)(ii). For clarification, the Final RFO provides that a contract for Prepayment may be terminated by an Awarded Customer under the off-ramps in Paragraph 6(c)(ii) and (iii). This is added for consistency with the notions that each accepted Offer for a Block and the related Prepayment obligation is an individual contract and each such contract may be terminated by exercising an off-ramp right. This change is made in several places in the Final RFO.

Paragraph 6(c)(ii)(A). In the Draft RFO, the Termination Spread calculation did not include an assumption as to the period between the Lock-In Date and closing for the Bonds (were they to be issued). The Final RFO directs the customers to assume that the closing date for the related hypothetical Bonds (for purposes of determining the Termination Spread) should be March 29, 2013. This section adds a link to the U.S. Treasury website for obtaining the yields on 10-Year Treasuries. For purposes of determining the Termination Spread, an Awarded Customer must use the yields on 10-Year Treasuries at the close of the business on the business day before the Lock-In Date.

Paragraph 6(c)(ii)(B). The Final RFO adds a date certain. The Final RFO clarifies that the off-ramp in this paragraph applies to agreements, analogous to bond purchase agreements, which may be used in connection with bank loans or notes.

Paragraph 6(c)(iii)(B). The Final RFO references an acceptable form to be used by customers in exercising the Adjustment Cap Off-Ramp (see Appendix F, Part II). There is no requirement that a customer use this form.

Paragraph 6(c)(ii)(C). The Final RFO clarifies that the customer will have to develop its own form of notice to BPA that the customer is terminating one or more Prepayment contracts under Paragraph 6(c)(ii)(B).

Paragraph 6(e). The Final RFO adds this paragraph to assure customers that BPA's obligation to pay out-of-pocket expenses survives termination of the related Prepayment contract(s).

Paragraph 7. The Final RFO adds more detail and certainty to the process for execution and delivery of the Revision.

Paragraph 8(b). In the Draft RFO, BPA had not resolved whether to allow a customer to direct cash remittances to any account designated by the customer. BPA has decided to make such remittances only to the account each customer has established with BPA to receive refunds. This limitation will avoid complication and potential for confusion and mistakes in BPA's billing and payment procedures and practice.

Appendix A

Introduction. Appendix A to the Final RFO adds some explanatory information to convey the notion that customers may bundle multiple Offers in a single Offer form.

Part II. Appendix A to the Final RFO clarifies that each Offer that is accepted is a separate contract. This point is also made throughout the RFO proper.

Part III. Appendix A to the Final RFO clarifies that an Offeror, in its Offer(s), is to provide a notice of intent to issue or not issue Bonds.

Part IV. Appendix A to the Final RFO uses the term "Offer Date Tested Bonds" for determining the Initial Spread for customers opting-in to the basis risk off-ramp of Paragraph 6(c)(ii)(A). In draft Appendix A to the Draft RFO, BPA would have required the customer to attempt to predict the spread to Treasury on any date the customer selected prior to April 1, 2013. This would not have established an estimate of Offeror's spread to Treasury proximate in time to the date that the Offer is submitted. Appendix B to the Final RFO modifies the Initial Spread determination by asking Bond-issuing customers to estimate, as part of their Offers, their hypothetical Bonds' spread to Treasury assuming such Bonds priced on November 29, 2012 and closed the next day.

Appendix A to the Final RFO also requires that the customers, in estimating the Initial Spread, assume that debt service on the hypothetical Bonds is paid from February 1, 2013 to June 30, 2028. This is the same number of months (186) as was proposed in the draft Appendix A to the Final RFO (it is also the same number of months that the Prepayment Credits are scheduled to be provided), but the assumed Bond closing date of February 1, 2013 will allow a more accurate estimate of the cost of the hypothetical Bonds.

Part IV, section 2. Appendix A to the Final RFO, Part IV, section 2, now uses a date certain for estimating the initial spread to Treasury.

Part IV, section 3. Appendix A to the Final RFO, Part IV, section 3, includes a link to the Treasury web site for obtaining the yields on 10-year Treasuries for purposes of estimating the initial spread to Treasury. The section also includes conforming changes.

Part IV, section 4. Appendix A to the Final RFO, Part IV, section 4, includes conforming changes. It also changes “will” to “would” to accurately reflect the hypothetical character of the estimate.

Appendix B

The third sentence of Appendix B to the Final RFO replaces the phrase “may be” with the phrase “are to be,” to connote that the provision of net billing credits is not voluntary. The third sentence of Appendix B to the Draft RFO is deleted in the final Appendix B as redundant of information provide elsewhere in Appendix B.

Appendix C

Appendix C to the Final RFO replaces information in Appendix C to the Draft RFO regarding indirect participation in the Program. BPA provided such information to assist customers in considering indirect participation in the Program where they may otherwise be precluded. The information has served its intended purpose and BPA has deleted the information in Appendix C to the Draft RFO. In lieu thereof, Appendix C to the Final RFO supplies forms for customers to use in notifying BPA of customer-selected Lock-In Dates. There is no requirement that customers use the Lock-In Date form supplied in Appendix C.

Appendix D

Appendix D to the Final RFO includes a changed date, and deletes brackets that were inadvertently in the draft Appendix D.

Appendix E

Appendix E to the Final RFO includes a number of changes to reflect the terminology of the Final RFO, and where possible, it uses known numbers, dates and amounts in lieu of definitional terms. The effect of the formula is to establish the present value (in dollars) of two streams of 186 monthly Prepayment Credits and determine the difference (in dollars) between the two streams. The first stream is based on the yields on 10-year Treasuries on November 29, 2012. The second is based on the yields on 10-year Treasuries for the Lock-In Date (determined by reference to Treasury yields on the on the

Lock-In Date, prior to 3:00 PM Pacific Time). This differential is the Market Rate Adjustment, which may be positive or negative, and which represents the change in the present value of the Prepayment Credit stream as of the Lock-In Date.

Appendix F

Appendix F to the Final RFO includes a Part I, which provides an acceptable form to be used by a customer in terminating one or more Prepayment contracts under the Adjustment Cap Off-Ramp under Paragraph 6(c)(i).

Appendix F to the Final RFO includes a Part II, which provides an acceptable form to be used by a customer in terminating one or more Prepayment contracts under the basis risk off-ramp under Paragraph 6(c)(ii)(A).

Appendix F to the Final RFO includes a Part III, which provides an acceptable form to be used for the certification of the customer's Financial Advisor in terminating a Prepayment contract under the basis risk off-ramp under Paragraph 6(c)(ii)(A).

Appendix G

Appendix G to the final RFO changes a date and changes the section numbering.

Appendix H

Appendix H is the template form of Revision to Exhibit D of the PSA. The template as executed will include several customer-specific details (contract numbers, name of customer, section numbers, etc.).

Title. The title of the Revision was changed to reflect the final title of the RFO.

Section #.1. Appendix H to the final RFO is redrafted to reflect the final title of the RFO and the date certain that Prepayments are to be made. This section also includes a provision to be used for Slice Block customer PSAs to allay possible confusion that a "Block" as defined in the RFO and the Revision is the same as Block product purchases of power under the Slice Block contracts. This section also clarifies that a Prepayment is the dollar amount paid for a single Block. This change is in line with the notion that each offer and acceptance of a Block is a separate contract that calls for a single Prepayment.

Section #1, second paragraph. The second paragraph of Section #1 of Appendix H to the Final RFO adds "aggregate" for consistency with the notion that each Prepayment is related to a single Block but that Prepayments shall be aggregated into a single payment to BPA. The paragraph also uses a new defined term "Unadjusted Prepayment Amount" to reflect the notion that the amount of a Prepayment that becomes due to be paid may be larger or smaller than the Market Clearing Purchase Price due to operation of the Market Rate Adjustment (where applicable). The second paragraph has also been reordered and wording added to conform directly to the description of Prepayment and Prepayment Credits used in the RFO. The second paragraph also includes the phrase "making an electric power Prepayment under a Prepayment RFO" to address in the Revision the

possibility that BPA may proceed in the future with one or more additional power prepayment solicitations modeled on the RFO and employing the Revision.

Section #.2. In contrast to Appendix H of the Draft RFO, the first paragraph of Section #2 of Appendix H of the Final RFO deletes a sentence beginning “Prior to BPA’s execution . . .” The review applies only to the Prepayment amounts as adjusted by the Market Rate Adjustment and is fully addressed under paragraph 5(d) of the Final RFO.

Section #.3.3(2). In contrast to Appendix H of the draft RFO, Section #.3.3(2) of Appendix H of the Final RFO adds more precise section cross-references. It also includes a proviso that states:

provided, however, that, the application of «Customer Name»’s Carry Forward Prepayment Credits to «Customer Name»’s purchases of electric power from BPA under section #.3.3(1)(a) of this exhibit shall extend past November 30, 2032 but only if and to the extent there is in effect between «Customer Name» and BPA one or more agreements for the sale of electric power by BPA to «Customer Name» after such date.

This proviso is added for certainty that the Prepayments under the RFO do not involve the sale of electric power in excess of 20 years. See Bonneville Project Act, 16 U.S.C. 832d(a). The referenced provision of the Bonneville Project Act provides that BPA power sales in general “shall be effective for such period or periods, including renewals or extensions, as may be provided therein, not exceeding in the aggregate twenty years from the respective dates of the making of such contracts.”

Section #.3.4. In contrast to Appendix H of the Draft RFO, Section #.3.4 of Appendix H of the Final RFO includes a provision that states BPA shall remit cash payments by the Due Date for the “month following the month in which the reassignments under sections #.3.2 and #.3.3(2) of this exhibit shall have been deemed to have been made.” The version in Appendix H of the Draft RFO was incorrect. It suggested that the remittances by BPA would be paid within 20 days of the month in which the related deemed reassignments occurred. On that time frame, BPA would not be in a position to determine if it had in fact received cash receipts from other power sales adequate to support deemed assignments and related cash remittances. The additional calendar month will provide BPA with time to assess whether it can effect deemed reassignments and can make the related remittances. For purposes of comparison, the provision will result in cash remittances (if any) lagging the Prepayment Credits by one month.

In contrast to Appendix H of the Draft RFO, Section #.3.4 of Appendix H of the Final RFO includes a parenthetical that states that the term Due Date shall have the meaning as defined in section 16.2 of the body of this Agreement “(or its equivalent date if this Agreement is no longer in effect).” This clause is intended to assure customers that the monthly dates on which BPA will provide cash remittances and Repayment Credits will be the same after the end of the related PSA.

In contrast to Appendix H of the Draft RFO, Section #.3.4 of Appendix H of the Final RFO includes a provision that states that BPA “shall transfer the remittances hereunder to «Customer Name»’s specified account to which BPA provides refunds under this Agreement.” This added provision is consistent with Paragraph 8(b) of the Final RFO. BPA has decided to make such remittances only to the account each customer has established with BPA to received refunds. This limitation will avoid complication and potential for confusion and mistakes in BPA’s billing and payment procedures and practice.

Section #.6. In contrast to Appendix H of the Draft RFO, Section #.6 of Appendix H of the Final RFO includes a provision that states that the customer shall not enter into an assignment that purports to provide to a third party “a right to any electric power purchased from BPA (including under this section # of this exhibit).” This added clause conforms to the body of the PSA and is added to assure that a customer does not inadvertently enter into such an assignment.

Signatures. In contrast to Appendix H of the Draft RFO, Section #.6 of Appendix H of the Final RFO includes a signature block introduction.

PART VII. STATUTORY BACKGROUND

BPA’s organic statutes evidence a strong Congressional policy that BPA shall encourage the widest possible use of all electric energy that can be generated and marketed from the dams, consistent with public bodies’ preference rights, while recovering BPA’s costs and repaying the Federal investment in the FCRPS over a reasonable number of years through the lowest possible rates. Bonneville Project Act, 16 U.S.C. § 832a(b); Flood Control Act of 1944, 16 U.S.C. 832z; Federal Columbia River Transmission System Act of 1974, 16 U.S.C. § 838g; Northwest Power Act, 16 U.S.C. §§ 839(2), 839(4), 839c(a), 839e(a)(1). With the significant expansion of BPA’s responsibilities under the Northwest Power Act, Congress clarified that it was a purpose of BPA’s organic statutes to “assure the Pacific Northwest of an adequate, efficient, economical and reliable power supply.” 16 U.S.C. § 839(2),.

To carry out these purposes of making power available at low cost, the BPA Administrator is given broad authority. For example, under the Bonneville Project Act, the Administrator is authorized

to enter into such contracts, agreements, and arrangements, including the amendment, modification, adjustment, or cancellation thereof . . . , and to make such expenditures, upon such terms and conditions and in such manner as he may deem necessary.

16 U.S.C. § 832a(f). The availability of this contract authority is confirmed in the Pacific Northwest Electric Power Planning and Conservation Act of 1980.

Subject to the provisions of this chapter, the Administrator is authorized to contract in accordance with section 2(f) of the Bonneville Project Act of 1937 (16 U.S.C. 832a(f)).

Other provisions of law applicable to such contracts on December 5, 1980 shall continue to be applicable.

16 U.S.C. § 839f(a). In addition, the Administrator is to assure the timely implementation of the Northwest Power Act in a sound and business-like manner. 16 U.S.C. § 839f(b).

The RFO, the Program, and the contracts to be entered into to effectuate the RFO and Program will assist in ensuring adequate, efficient, economical and reliable power supply for the Region, and assist in promoting widespread use of BPA's power at the lowest possible rates consistent with sound business principles. The RFO, the Program, and the contracts to be entered into to effectuate the RFO and Program will re-shape BPA's revenue stream from electric power sales during the term of the PSAs to assure that BPA is able to make continued, timely, prudent investments in the FCRPS while avoiding a substantial power rate increase. Further, by reducing the likelihood of reductions in investment in the Fed-Hydro facilities and other FCRPS assets, the RFO, Program and contracts help avoid adverse effects on overall hydro-generation performance, reliability and overall electric power production.

While the funds received from the RFO, the Program, and the contracts to be entered into to effectuate the RFO and Program will not be legally committed or segregated for use to make investments in the Fed Hydro Facilities, the availability of the funds derived will assure that such investments are made consistent with BPA's Fed-Hydro investment plans. In this regard, BPA is guided by the policies undergirding the direct funding authorization providing for BPA to fund generation additions, improvements and replacements, at Federal projects in the Region:

Without further appropriation and without fiscal year limitation, the Secretaries of the Interior and Army are authorized to plan, design, construct, operate and maintain generation additions, improvements and replacements, at their respective Federal projects in the Pacific Northwest Region, and to operate and maintain the respective Secretary's power facilities in the Region, that the respective Secretary determines necessary or appropriate and that the Administrator subsequently determines necessary or appropriate, with any funds that the Administrator determines to make available to the respective Secretary for such purposes. Each Secretary is authorized, without further appropriation, to accept and use such funds for such purposes . . .

16 U.S.C. § 839d-19.

PART VIII. CONCLUSION

For the above reasons, BPA has determined to establish and move forward with the Final RFO and Program.

Issued at Portland, Oregon.

/s/ Stephen J. Wright
Stephen J. Wright
Administrator and
Chief Executive Officer

October 5, 2012
Date

ATTACHMENT A
REQUEST FOR OFFERS

**REQUEST FOR OFFERS FOR
PREPAYMENT OF ELECTRICITY**

1. **Request for Offers from Preference Customers.** The Bonneville Power Administration (“BPA”) issues this Request for Offers for Prepayment of Electricity (“RFO”) on this date, August 14, 2012, soliciting offers from BPA’s preference customers to prepay for electricity (also referred to herein as “electric power”) purchased from BPA pursuant to their existing power sales agreements (“PSAs”) with BPA.

2. **Preference Customers.** Offers may be submitted by any preference customer that has
 - (i) executed a PSA with BPA to purchase electricity through September 30, 2028 and
 - (ii) meets the criteria listed in Paragraph 4(b) of this RFO. Such preference customers that make offers hereunder (“Offerors”) may have a load-following PSA or a slice/block PSA, or in the future could be served under a block-only PSA. The Prepayment(s) (defined below) will be made pursuant to the contract(s) formed by BPA’s acceptance of the related Offer(s) (defined below) and a ‘springing amendment’ to applicable PSAs through a revision to Exhibit D of the existing PSAs (“Revision”). The form of the Revision is attached as Appendix H.
 - (a) **Timeline.** Offers conforming to the requirements of this RFO must be submitted to BPA between Noon, Pacific Time on November 29, 2012, and Noon, Pacific Time on November 30, 2012. Offers received earlier or later than such time period will be deemed to be nonconforming Offers. Offers and the related Appendices necessary therefor must be made by electronic communication (“e-mail”) to the e-mail address provided in Paragraph 2(b)(viii). Prepayments under this RFO shall be made no later than March 29, 2013. This provides approximately four months after BPA accepts Offers for preference customers whose Offers are accepted (“Awarded Customers”) to arrange for the marketing, pricing and closing of Bonds (defined below) or otherwise to obtain the funds necessary to make their Prepayment(s).

 - (b) **Communications.**
 - (i) **General.** Unless otherwise provided herein or as specified by BPA at a later time, communication by and between BPA and preference customers, Offerors, Prepaying Customers, and/or Awarded Customers (each as defined or described herein) for all notices, filings and other statements hereunder, including any exercise of any right under this RFO or the contract formed by acceptance of Offers hereunder by BPA, shall be made first by e-mail to be followed immediately thereafter by the delivery of physical documentation via express mail. Where signed documents are required, they shall be provided by portable document format (“PDF”) followed immediately by physical delivery of originals via express mail. For example, the set of documents required for a conforming Offer requires the submission of several executed

documents. Given the time sensitive nature of the submission of Offers and acceptance thereof by BPA, PDF signatures are required in the submission of Offers. The communication limitations described in this Paragraph 2(b) will no longer be in effect at the time one or more Offers have been accepted or this RFO has been terminated, if earlier.

- (ii) RFO Questions. Preference customers (or preference customer associations) and their representatives (“Interested Parties”) may have questions about the provisions of this RFO in connection with the preparation of Offers or the evaluation of whether to make Offers (“RFO Questions”). BPA prefers that Interested Parties direct RFO Questions to their designated BPA Power Services Account Executives by email. The applicable email address is provided below. BPA will attempt to answer the questions as promptly as possible; however, in view of the competitive character of this RFO, all such e-mailed questions and responses shall be made available to all Interested Parties.

In making RFO Questions available to Interested Parties (and in responding to RFO Questions), BPA will not identify the names of the interested preference customers (or preference customer associations) or their representatives submitting the RFO Questions until after the acceptance of Offers under, or termination of, this RFO.

- (iii) Informational Meetings / Conference Calls. BPA expects to hold one or more webinars, informational meetings or conference calls to help further the understanding of this RFO among Interested Parties. BPA will take reasonable steps to provide telephonic access to such meetings to Interested Parties. BPA will also make recordings of such meetings or conference calls available to Interested Parties.
- (iv) Assistance in Customizing Documents Necessary for Submitting Offers. The documents necessary for a conforming Offer, in particular the Offer form and the Revision form, are provided in this RFO as templates and must be customized to reflect individual features of a preference customer’s PSA and comport with BPA’s contract form requirements for PSAs and PSA-related transactions. In connection with possible Offer(s), at a preference customer’s timely request, BPA will provide assistance so that the Offer(s) and related Appendices are prepared to a degree where the preference customer will have to fill in the relevant blanks relating to the Substance (as defined below) and arrange for the execution of the related documents, including the Revision. In providing this contract customization assistance, BPA will not fill in the Substance (as defined below). Moreover, by requesting BPA’s customization assistance a preference customer agrees that it will not discuss with or seek advice from BPA or its representatives on the Substance of the preference customer’s Offer(s) or possible Offer(s). “Substance” means the Purchase Price (Prepayment) a preference customer will Offer, is considering offering or may consider offering; whether the preference customer will opt in to the Market Rate Adjustment under Paragraph 5; whether the preference customer will issue Bonds as defined herein; whether the preference customer will opt in to the Offeror Off-Ramp

under Paragraph 6(c)(ii)(A); whether the preference customer will submit or is considering submitting no Offer, or one or more Offer(s); and the number of Offers the preference customer will submit or is considering submitting.

- (v) *Assistance in Explaining the RFO and the Prepayment Program.*
At a preference customer's or other Interested Party's request, BPA will also take reasonable steps to be available on a limited basis to engage directly in explaining the RFO and the Prepayment Program and to answer directly RFO Questions ("Direct Discussions"). Before BPA engages in these Direct Discussions, and in the hope of limiting the need for Direct Discussions, BPA encourages Interested Parties to e-mail RFO Questions to their BPA Power Service Account Executives (see Paragraph 2(b)(ii)) and to participate in the informational meetings referred to in Paragraph 2(b)(iii).

BPA may also engage in limited Direct Discussions to apprise Interested Parties of the existence of the RFO, its general character, related information resources, RFO timing and schedule of events, and similar administrative matters.

At no point will BPA or its representatives be free to advise any preference customer or other Interested Party in any way on the Substance. By requesting Direct Discussions with BPA or its representatives, a preference customer or other Interested Party agrees that it will not discuss with or seek advice from BPA or its representatives on the Substance.

- (vi) *No Obligation to Respond to RFO Questions.* BPA reserves the right not to respond to any or all RFO Questions from Interested Parties. BPA does not intend to respond to RFO Questions, provide assistance in explaining the RFO or the Prepayment Program, or requests for assistance in customizing documents, in each case which are submitted to BPA by Interested Parties after 5:00 PM Pacific Time on November 15, 2012.
- (vii) *BPA Point of Contact.* Unless otherwise specifically provided herein or as BPA may later provide, communications to BPA in connection with this RFO shall be addressed to:

Drafter's Note: Insert AE's Name and Address

Bonneville Power Administration

«Street Address»

«P.O. Box»

«City, State, Zip»

Attn: «AE Name - Routing»

«Senior »Account Executive

Phone: «###-###-####»

FAX: «###-###-####»

E-Mail: «E-mail address»

Please Note: Offer(s) and the associated Appendices necessary therefor must be e-mailed to the e-mail address provided in Paragraph 2(b)(viii), immediately below.

- (viii) ***Submission of Offers.*** Offer(s) and the associated Appendices necessary therefor must be e-mailed to BPA no later than Noon Pacific Time on November 30, 2012 at: powerprepays@bpa.gov, with hard copy originals to be delivered (by overnight mail or other reasonable means of delivery for receipt no later than 5:00 PM Pacific Time on December 3, 2012) to the address and to the attention of the Account Executive provided in Paragraph 2(b)(vii) immediately above. In submitting the e-mail of Offers and the associated Appendices necessary therefor, please send an electronic carbon copy (cc) of such materials to the e-mail address of the Account Executive as set forth in Paragraph 2(b)(vii).
- (c) ***Value of Electricity the Purchase Price of Which May Be Paid through Prepayments.*** This RFO invites preference customers to offer to prepay for electricity to be delivered by BPA in discrete increments (“**Blocks**”). Each Block will represent the right to prepay the purchase price for \$50,000 value of electricity from BPA each month during the period commencing on April 1, 2013, and ending September 30, 2028.
- (i) ***Date Prepayment Credits Commence.*** April 1, 2013 is the first day of electricity sales to which Prepayments will relate. Prepayment Credits (defined below) accruing for a month will be available to offset payment obligations otherwise due to BPA with respect to that month under Section 16.2 of the PSA.
- (ii) ***Value of Electricity Offered.*** BPA expects that the maximum value of electricity for which Prepayments will be accepted under this RFO will be between \$2.25 million per month (45 Blocks) and \$6.0 million per month (120 Blocks). The expected aggregate amount of Prepayments accepted by BPA (as of the date accepted by BPA, and without taking into account Market Rate Adjustments, as described herein) will not exceed (A) BPA’s estimated capital expenditures for federally-owned hydroelectric facilities of the Federal Columbia River Power System in Fiscal Years 2014-2015 as set forth in the Integrated Program Review for BPA’s Fiscal Year 2014-2015 Power Rate Case, plus (B) BPA’s actual capital expenditures for such hydroelectric facilities to the extent they were funded in Fiscal Year 2013 from cash reserves in the Bonneville Power Administration Fund in anticipation of later borrowings from the United States Treasury (BPA frequently refers to this practice as “deferred borrowing”). BPA expects that the aggregate Prepayments (defined below) it would accept could be in the range of \$300 million to \$600 million under this RFO. Not later than November 16, 2012, BPA will announce an estimate of the maximum aggregate dollar amount of Prepayments that BPA will accept under this solicitation.
- (d) ***Right to Amend the RFO.*** BPA reserves the right to cancel, amend and/or clarify the terms and conditions of this RFO at any time prior to Noon, Pacific Time on

November 30, 2012, provided that notice of any such possible amendments or clarifications will be communicated by BPA to all preference customers not later than November 21, 2012, and provided further that the date on which Offers are due may be delayed and the RFO terminated or delayed or suspended without prior notice. BPA may cancel this RFO at any time for any reason. BPA assumes no obligation to reimburse preference customers for any expenses incurred in preparing Offers.

- (e) **Formation of Contract.** Upon the acceptance by BPA of Offers, as described in Paragraph 4(h)(iii), the terms of this RFO (including Appendices) shall constitute a binding contract by and between BPA and each Offeror with respect to each of its Offers that BPA has accepted.

3. **Schedule of Value of Electricity to Be Delivered by BPA Each Month to Which Prepayments May Apply.** As provided in the Revision (see Appendix H), each Awarded Customer that makes its required payment (“Prepaying Customer”) will be entitled to monthly reductions (“Prepayment Credits”) for the period from April 1, 2013 through September 30, 2028, reflecting the value of electricity attributable to its Prepayment for each such month. Prepayment Credits will be associated with and reflect the right to receive delivery of a specified value of electricity from BPA each month. As provided in the Revision, the Prepayment Credits will be the dollar amounts that the Prepaying Customer would have paid in the related month but for the amount it prepaid, and will be shown on the Prepaying Customer’s monthly power bill as reductions to the amount that otherwise would be payable with respect to the Prepaying Customer’s purchases of electricity from BPA. For its part, the Prepaying Customer shall make a lump sum cash payment to BPA no later than March 29, 2013 with respect to each Offer that BPA has accepted (“Prepayment”). While each Prepaying Customer will aggregate all of its Prepayments into a single payment to BPA, each Offer (and the separate contract formed by the acceptance thereof by BPA) is associated with a separate Prepayment.

Drafter’s Note: Insert appropriate Exhibit D section number below in 3(a), (b) and (c)

- (a) **Prepayments for Electricity.** As provided in the Revision, except in connection with “deemed assignments” of Prepayment Credits by BPA to other purchasers of electricity and possibly in connection with any accumulation of unused Prepayment Credits, each as set forth in Section #.3 of the Revision, Prepayment Credits apply only to payments the Prepaying Customer otherwise would be required to make to BPA for each month as a result of the Prepaying Customer’s purchases of electricity from BPA during that month pursuant to the Prepaying Customer’s PSA. For avoidance of doubt, a Prepayment does not entitle the Prepaying Customer to payment credits for transmission or related services or any other products, apart from electricity, that it purchases from BPA, or for any other obligation, apart from the purchase of electricity, that the Prepaying Customer owes to BPA.
- (b) **Fixed Value of Prepaid Electricity.** A Prepaying Customer’s Prepayment is *not* for a fixed quantity of electricity. Rather, a Prepayment is and will be treated as meeting the obligation of the Prepaying Customer (or any deemed assignee of Prepayment Credits under Section #.3 of the Revision) to make payment to BPA for a fixed monthly *value* of electricity. The *quantity* of electricity to which a Prepayment applies shall vary, depending on BPA’s rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA’s rates and

rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits under Section #.3 of the Revision). The schedule of the value of electricity to be prepaid each month will be fixed, as provided in the Revision, and will not be subject to change after the associated Prepayment is made and the Revision takes effect (except that Prepayment Credits shall be carried forward as provided in Section #.3.3 of the Revision).

- (c) ***Prepaid Electricity and Prepayment Credits May Not Be Assigned.*** Prepaying Customers may not assign their rights to the prepaid electricity or the related Prepayment Credits to any other person; however, it is possible that certain deemed assignments of Prepayment Credits could be made by BPA under circumstances described in Section #.3 of the Revision. Prepaying Customers may pledge the cash remittances under Section #.3 of the Revision as provided in Paragraph 8(b) hereof and Section #.6 of the Revision.

4. Auction Process/Offers.

- (a) ***Blocks.*** Each offer to purchase a Block shall be made by the Offeror by delivering to BPA two (unless more are required by the Offeror) fully completed and executed Offer forms attached hereto as Appendix A and all other necessary additional Appendices specified in this RFO) (each an “Offer”); provided, that regardless of the number of Offer forms submitted, the Offeror shall provide only two (unless more are required by the Offeror) executed Revision forms, attached hereto as Appendix H, and two (unless more are required by the Offeror) executed certifications, attached hereto as Appendix D. Each Offer shall specify a “Purchase Price,” meaning the maximum Prepayment amount the Offeror is willing to pay for a Block (prior to any Market Rate Adjustment, as provided in Paragraph 5 of this RFO). Offerors may submit multiple Offers, each for the purchase of a single Block, although the aggregate number of Offers an Offeror may submit is subject to the limits described in Paragraph 4(b). An Offeror may (but need not) offer a different Purchase Price for each Block offered. ***Please Note:*** An Offeror may submit a number of identical individual Offers through a single set of executed Offer forms so long as the Offers are identical or differentiated only by Purchase Price, as provided in Appendix A.
- (b) ***Offers Limited.***
 - (i) ***Prepayment Limit.*** Each preference customer is limited in the number of Blocks it may offer to purchase. The limit is the lesser of (A) the estimated Prepayment Credits that may be contracted for by BPA and the preference customer in BPA Fiscal Years 2014 – 2018 in light of the preference customer’s Net Billing Agreement(s), if any, or (B) 50% of the smallest amount expected to be paid to BPA by the preference customer under its PSA for electricity purchased during any BPA Fiscal Year from BPA Fiscal Year 2014 through BPA Fiscal Year 2018. (See Appendix B.)
 - (ii) ***Confidential Communication of Prepayment Limit to Each Preference Customer.*** BPA will determine and provide separately to each requesting preference customer, on a confidential basis, the maximum number of Blocks for which the preference customer may submit Offers consistent

with the foregoing limitation in Paragraph 4(b)(i). To receive the foregoing information regarding the maximum number of Blocks a preference customer may offer, it must send BPA an electronic communication requesting the information no later than 5:00 PM Pacific Time on October 15, 2012. Communications under this Paragraph 4(b)(ii) do not constitute Direct Discussions or RFO Questions as defined in Paragraph 2(b).

- (c) **No Partial Blocks.** Each Offer shall be for the purchase of a single whole Block; however, this RFO does not preclude a Prepaying Customer from entering into a strictly financial loan type agreement (one not involving the assignment of either electricity from BPA or Prepayment Credits) with another preference customer where it provides a portion of the Prepaying Customer's Prepayment and receives consideration in return.
- (d) **Certification of True Interest Cost.** To establish the Offeror Off-Ramp described in Paragraph 6(c)(ii), an Offeror that expects to issue Bonds to fund the related Prepayment(s) must include in its related Offer(s) (i) a certification of the Offeror's estimated true interest cost on indebtedness that might be issued to finance the Offeror's Prepayment(s), assuming the indebtedness were issued on November 30, 2012, computed as set forth in Appendix A ("TIC"), and (ii) a certification of the differential ("Initial Spread") between (A) the yield on 10-year U.S. Treasury obligations for November 29, 2012, as published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, and (B) the TIC. Reasonableness of the TIC estimate must be confirmed by a certification of the Offeror's independent financial advisor ("Advisor"), on the form set forth in Appendix A. The Offeror Off-Ramp described in Paragraph 6(c)(ii) shall be available to an Offeror only if its related Offer(s) met the conditions establishing the Off-Ramp right.
- (e) **Certification of Authority to Issue Bonds.** Each Offer must include a certification substantially in the form attached as part of Appendix A to the effect that any bonds, notes or other indebtedness ("Bonds") proposed to be issued to fund a Prepayment are authorized under applicable federal, state and local law, as well as any applicable resolutions, charters, bylaws or other rules or regulations that apply to the Awarded Customer or to any other entity that is proposed to issue Bonds to fund any Prepayment or portion thereof.
- (f) **Certification of Independent Offer(s).** Any collusion among Offerors in establishing the number of Blocks offered or the Purchase Price offered for any Block is prohibited. Each Offer must include a certification of independent offer by the Offeror, substantially in the form attached as Appendix D.
- (g) **Market Clearing Purchase Price.** In general, BPA will accept Offers for Blocks based on the Offer(s) that provide(s) the highest Purchase Price(s) (*i.e.*, the largest Prepayment) that 'clears the market' ("Market Clearing Purchase Price"). The Market Clearing Purchase Price is the highest Purchase Price which, together with all other offered Blocks at that or a greater Purchase Price, provides BPA with an aggregate amount of Prepayments and cost that BPA determines is appropriate. All Awarded Customers shall pay the Market Clearing Purchase

Price for each offered Block that BPA accepts (but subject to adjustment for Offers by Awarded Customers who elect the Market Rate Adjustment described in Paragraph 5). Thus, with respect to an offered Block, even without regard to the Market Rate Adjustment described in Paragraph 5, it is possible that an Awarded Customer may become obligated to provide a lower Prepayment (*i.e.*, Purchase Price) than the amount that it submitted in its accepted Offer(s) if the Market Clearing Purchase Price is lower than Purchase Price submitted in the Awarded Customer's accepted Offer(s).

(h) ***Evaluation and Acceptance of Offers.***

- (i) ***BPA Evaluation of Offers.*** As soon as reasonably practicable following Noon Pacific Time on November 30, 2012, but in no event later than 9:00 AM Pacific Time on December 4, 2012, BPA will complete its initial evaluation of the Offers received to determine (A) which Offers conform to the RFO, and (B) the aggregate amount of conforming Offers (if any) that BPA will accept, up to the maximum aggregate Prepayment amount theretofore specified by BPA. This initial evaluation will be made without regard to how an Offeror proposes to fund its Prepayment, and without regard to whether an Offer has opted into the Market Rate Adjustment under Paragraph 5 or Offeror Off-Ramps under Paragraph 6(c). Communications in this Paragraph 4(h) will be held in confidence and do not constitute RFO Questions or Direct Discussions as defined in Paragraph 2(b).
- (ii) ***Nonconforming Offers.*** BPA, in its discretion, may advise any Offeror that has submitted a nonconforming Offer of the manner in which the Offer fails to conform to this RFO, in which case the Offeror may submit a revised Offer. Any such revised Offer must be submitted to BPA no later than 5:00 PM Pacific Time on November 30, 2012. Any revised Offer shall make no change to the offered Purchase Price.

Drafter's Note: Insert appropriate Exhibit D section number below.

- (iii) ***BPA Acceptance of Offers.*** By 5:00 PM Pacific Time on December 4, 2012, BPA will advise all Offerors of (A) the aggregate number of Blocks and the aggregate amount of Prepayments that BPA is accepting (without regard to Market Rate Adjustments described in Paragraph 5), (B) the Adjustment Cap (defined in Paragraph 5(c)), and (C) the Market Clearing Purchase Price applicable to all offered Blocks that BPA is accepting. BPA will accept Offers by executing and delivering to Awarded Customers the applicable Revision, as provided in Paragraph 7, which shall reflect the number of offered Blocks that BPA has accepted to sell to the related Awarded Customer in the Schedule of Prepayment Credits in Section #.3.1.

- (A) ***Over-Subscription.*** If conforming Offers are made for more than one Block at the Market Clearing Purchase Price, BPA will accept all such Offers, subject to the limit described in Paragraph 2(c)(ii) or such other lower aggregate amount of Prepayments that BPA determines to accept. If BPA determines to accept fewer than all conforming Offers originally made at the Market Clearing Purchase

Price, BPA may accept conforming Offers originally made at the Market Clearing Purchase Price by lottery.

(B) Under-Subscription/Invitations to Re-Offer. If BPA determines that the potentially acceptable Offers will not provide Prepayments in an aggregate amount sufficient to meet BPA's purposes, BPA reserves the right and ability to, and may, not later than 5:00 PM Pacific Time on December 4, 2012, invite Offerors whose originally offered Purchase Prices were lower than the Market Clearing Purchase Price to re-offer at the Market Clearing Purchase Price. BPA will extend the invitations to all Offerors whose original Offers were for Purchase Prices lower than the Market Clearing Purchase Price. No later than Noon Pacific Time on December 5, 2012, any invited Offerors may notify BPA that they accept BPA's invitation to revise their Purchase Price for any Offer to the Market Clearing Price previously announced by BPA. If that invitation results in aggregate Offers for more Prepayments at the Market Clearing Price than BPA determines to accept, BPA will accept revised Offers in order ranked on the basis of the original conforming Offers that were closest to the Market Clearing Purchase Price.

- (i) **Price Paid for Accepted Offers**. The Market Clearing Purchase Price will apply with respect to all accepted Offers.
- (j) **Rejection of All Offers / Reservation Price**. BPA will establish a reservation price. If BPA accepts any Offer(s), it will communicate the reservation price it used to all Offerors by 5:00 PM Pacific Time on December 4, 2012. BPA reserves the right to reject all Offers without regard to its use or establishment of a reservation price.

5. **Market Rate Adjustment**. If and only if an Awarded Customer has so designated in its Offer(s), the Purchase Price to be paid for the related Offer(s) accepted by BPA will be subject to later adjustment ("Market Rate Adjustment") to reflect the change between (Y) the yield on 10-year U.S. Treasury obligations for November 29, 2012, as published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, and (Z) the yield on 10-year U.S. Treasury obligations, as published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, (Y) the yield on 10-year U.S. Treasury obligations for any time prior to 3:00 PM Pacific Time on the date that the Awarded Customer elects to lock in a Market Rate Adjustment for such Offer, as provided in a notice to BPA ("Lock-In Date"), as published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>. The formula for calculating the Market Rate Adjustment is set forth in Appendix E. If an accepted Offer does not specify that the Awarded Customer is electing into the Market Rate Adjustment, the Market Clearing Purchase Price shall be the amount specified in the accepted Offer without adjustment. **Please Note**: The Market Rate Adjustment is subject to a cap, as provided in Paragraph 5(c).

- (a) **Lock-In Date**. The Lock-In Date shall be a business day and shall not be earlier than three (3) business days following the date on which BPA receives written

notice of the Lock-In Date; provided, that, in no instance shall the Lock-In Date be later than March 19, 2013, and if the Awarded Customer has not established by notice to BPA a Lock-In Date that is before March 19, 2013, the Lock-In Date shall be March 19, 2013. An Awarded Customer may cancel the Lock-In Date designated in its notice at any time prior to 5:00 PM Pacific Time on the designated Lock-In Date, effective at the time BPA receives notice thereof, at which point the Awarded Customer shall be free to designate a new Lock-In Date by notice to BPA, subject to the limitation in the prior sentence that in no instance shall the Lock-In Date be later than the earlier of (i) three (3) business days following the date of BPA's receipt of the notice, or (ii) March 19, 2013. An acceptable form for establishing a Lock-In Date is provided in Appendix C.

- (b) ***Separate Lock-In Date for Each Offer.*** The Lock-In Date applies on an Offer basis, not on an Awarded Customer basis. For example, an Awarded Customer may elect to have a Lock-In Date in connection with a Prepayment for a Block which is expected to be funded with the issuance of Bonds and another Lock-In Date in connection with a Prepayment for a Block which is expected to be funded from cash-on-hand. ***Please Note:*** There is no requirement that an Offer must establish a Market Rate Adjustment or an associated Lock-In Date.
- (c) ***Adjustment Cap.*** The Market Rate Adjustment shall not exceed a dollar amount per Block, announced by BPA when it accepts the Offers ("Adjustment Cap"). The Market Rate Adjustment will increase or decrease the applicable Purchase Price (*i.e.*, Prepayment amount) as provided in Appendix E, subject to the Adjustment Cap. ***Please Note:*** If the Adjustment Cap is in effect on a Lock-In Date for an Awarded Customer, it should carefully weigh using the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) because if it does not take the off-ramp, the Awarded Customer may be exposed to being obligated to make a larger Prepayment (relative to the value of its Blocks in that interest rate environment) than it may or would otherwise be willing to bear.
- (d) ***Verification of Market Rate Adjustment.*** On or before 5:00 PM Pacific Time on the second business day after a Lock-In Date applicable to an accepted Offer, BPA will notify the Awarded Customer of the amount of the Market Rate Adjustment for the related Offer(s) and the final aggregate amount of Prepayment to be paid to BPA under this RFO by the Awarded Customer, and the Awarded Customer shall have the opportunity to verify the accuracy thereof prior to March 29, 2013. In the event of a dispute over the Market Rate Adjustment which is not resolved by March 29, 2013, the Awarded Customer shall make its Prepayment(s) on or before March 29, 2013 in the amount determined by reference to the BPA-determined Market Rate Adjustment, subject to final resolution under the dispute resolution provisions of the PSA applicable to disputed bills.

6. Funding Prepayments/Off-Ramps.

- (a) ***Timing.*** The Prepayment(s) must be made on or before Noon, Pacific Time on March 29, 2013. Awarded Customers may choose to pay BPA before March 29, 2013, but the Prepayment amount(s) will not be adjusted for early payment. ***Please Note:*** Where an Offer states that the Awarded Customer is not expected to issue Bonds to fund the related Prepayment, BPA may exercise its

Off-Ramp under Paragraph 6 of this RFO through March 28, 2013, regardless of whether the Awarded Customer has made its related Prepayment.

- (b) **Source of Funding.** Awarded Customers have flexibility to fund their Prepayments from whatever source(s) they choose (for example, cash-on-hand; proceeds from the issuance of Bonds), so long as the funding is consistent with applicable law, the terms of the PSAs, and the principles described in this RFO.
- (c) **Offeror Off-Ramps.**
 - (i) **Adjustment Cap Off-Ramp.** An Awarded Customer that submits an Offer stating that the Awarded Customer elects to have the Market Rate Adjustment apply to the Offer may elect to terminate the contract formed by BPA's acceptance of the Awarded Customer's Offer (including, without limitation, terminating the Awarded Customer's obligation to make the related Prepayment and the Awarded Customer's related entitlement to Prepayment Credits) if, on the applicable Lock-In Date, the Adjustment Cap is in effect. (**Please Note:** In lieu of terminating the contract formed by BPA's acceptance of the Awarded Customer's Offer, the Awarded Customer may change the Lock-In Date as provided in Paragraph 5(a).)
 - (ii) **Bond-Related Off-Ramps.** An Awarded Customer that submits an Offer stating that the Awarded Customer expects to issue Bonds to fund the Prepayment may elect to terminate the contract formed by BPA's acceptance of the Awarded Customer's Offer if:
 - (A) the estimated differential between the true interest cost on Bonds of the character described in the Awarded Customer's Certification of Expected True Interest Cost and Initial Spread, but sold on the Lock-In Date and issued on March 29, 2013, and the yield on 10-year U.S. Treasury obligations published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield> for the business day before the Lock-In Date ("**Termination Spread**"), has increased above the Initial Spread by more than 25 basis points (0.25%), determined as provided in **Appendix F**, Part II; or
 - (B) on the applicable Lock-In Date for the Offer, or in the twenty-one (21) calendar days thereafter (but in no event later than March 28, 2013), any of the conditions described in **Appendix G** exists, and such condition has resulted or will result in the failure (i) to achieve an executed bond purchase agreement for the Bonds or a similar agreement, including a credit agreement or similar contract where a note or similar debt instrument is proposed to be issued to a bank or financial institution ("**Bond Purchase Agreement**"), or (ii) to close the related Bond sale.

(iii) Termination Notices.

- (A) To exercise the right under Paragraph 6(c)(i) to terminate a contract formed in respect of an Offer, the Awarded Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination and a good faith estimate that the Adjustment Cap is in effect in connection with that Offer. An acceptable form for exercising the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) is provided in Appendix E, Part I.
- (B) To exercise the right under Paragraph 6(c)(ii)(A) to terminate a contract formed in respect of an Offer, the Awarded Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination in connection with that Offer and a good faith estimate (confirmed by a certification from the Advisor which certified the Initial Spread) that the Termination Spread is greater than the Initial Spread by more than 25 basis points (0.25%). Acceptable forms for exercising the termination right under Paragraph 6(c)(ii)(A) and the associated certification of the Advisor, are provided in Appendix F, Part II.
- (C) To exercise the right to terminate a contract formed in respect of an Offer under Paragraph 6(c)(ii)(B), the Awarded Customer must provide BPA with an irrevocable notice of termination in connection with that Offer (not later than 5:00 PM Pacific Time on March 29, 2013), together with a certification by it that one or more of the conditions described in Appendix G exists on the date of termination and has or will result in the failure (i) to achieve an executed Bond Purchase Agreement, or (ii) to close the related Bond sale. The form of notice of termination under this Paragraph 6(c)(iii)(C) may be any form that reasonably conveys the information required herein.
- (iv) Effect of Termination Notice. The right and obligation of the Awarded Customer to make its Prepayment with respect to an accepted Offer shall terminate upon delivery of a notification to BPA under Paragraph 6(c)(iii) with regard to Paragraphs 6(c)(i), 6(c)(ii)(A) or 6(c)(ii)(B); provided, however, that in lieu of termination under this Paragraph 6(c), the Awarded Customer may specify a new Lock-In Date by notifying BPA thereof in accordance with Paragraph 5(a).
- (v) Reimbursement of Costs. If an Awarded Customer exercises a termination election under this Paragraph 6(c) with respect to any accepted Offer, BPA will reimburse the Awarded Customer for up to \$100,000, in aggregate, of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or the proposed use of other available cash to fund the Prepayment(s), which costs would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s), in each case to the extent those costs were incurred from

December 5, 2012, through and including the date of the Awarded Customer's termination. If an Awarded Customer terminates only some of its Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers which gave rise to formation of contracts that are not terminated.

(d) ***BPA Off-Ramps.***

- (i) ***If Bond Financing Is Expected.*** Where an Offer states that the Awarded Customer or another entity is expected to issue Bonds to fund the related Prepayment(s), BPA may for any reason and without cause, at any time before an applicable Lock-In Date for the Offer, terminate the contract formed in respect of that Offer, including without limitation BPA's right to receive the Prepayment and BPA's obligation provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on the business day before the Lock-In Date.
- (ii) ***If Bond Financing Is Not Expected.*** Where an Offer states that the Awarded Customer or another entity is not expected to issue Bonds to fund the related Prepayment, BPA may, for any reason and without cause at any time before March 29, 2013, terminate the contract formed in respect of that Offer, including without limitation BPA's right to receive the Prepayment and BPA's obligation to provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on March 28, 2013. In such an instance, BPA shall immediately return any funds theretofore transferred to BPA by the Awarded Customer in respect of its Prepayment obligation prior to the termination.

If BPA exercises the termination right described in Paragraph 6(d)(i) or Paragraph 6(d)(ii), BPA will reimburse the Awarded Customer for up to \$100,000, in aggregate, of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or the proposed use of other available cash to fund the Prepayment(s), in each case to the extent those costs were incurred from December 5, 2012 through and including the date of BPA's termination, but only to the extent those costs would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s). If BPA terminates only some of an Awarded Customer's Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers which gave rise to formation of contracts that are not terminated.

(e) ***Survival of Reimbursement Obligations.***

For clarity, BPA's reimbursement obligations under Paragraphs 6(c) and 6(d) shall survive the termination of the contract(s) formed in respect of the related Offer(s).

7. **Revisions to Existing PSAs.** The Revision (two originals, unless more are required by the Offeror) must be executed by each Offeror and delivered to BPA as part of its Offer(s). If the Offer(s) are accepted by BPA, the Revision also will be executed by BPA and delivered to the Offeror. BPA will execute and deliver by e-mail to each Awarded Customer a PDF of the executed Revision by 5:00 PM, Pacific Time, December 5, 2012, to be followed immediately by delivery (via overnight mail) of a BPA-executed original of the Revision. The execution by BPA of a Revision and delivery of a PDF of that fully executed Revision to the Offeror will constitute BPA's acceptance of the related Offer(s), consistent with Paragraph 4 above. Once executed and delivered by BPA, the Revision shall take effect on March 29, 2013, but only if BPA has received the Prepayment on or before March 29, 2013, and no termination under Paragraph 6(c) or 6(d) has occurred. All other provisions of the existing PSAs with Prepaying Customers shall remain unchanged.
8. **Bonds Issued to Fund Prepayment(s) Will Not Be Guaranteed by BPA.** BPA will not provide any guarantee of the payment of principal of or interest on any Bonds issued by or for the benefit of any Awarded Customer to fund its Prepayment(s) or to refund or refinance such Bonds.
- (a) **Disclosure.** If Bonds are to be issued to fund a Prepayment, if disclosure materials are prepared with respect to those Bonds, and if the disclosure materials include a description of the Revision, then the disclosure materials also shall include the following statement: *"The [Name or Title of Bonds] are not a debt or other obligation of Bonneville Power Administration, and the [Name or Title of Bonds] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund."*
- Drafter's Note: Insert appropriate Exhibit D section number below.**
- (b) **Pledging Remittances.** The Awarded Customer may pledge or otherwise grant a security interest in (i) BPA's remittances of cash reflecting BPA's deemed assignments of electricity for an Awarded Customer in Section #.3 of the Revision, and (ii) money damages arising from any breach by BPA of its obligations under the Revision. However, any such pledge shall not provide or purport to provide the pledgee with any right to bring any legal action against BPA to enforce rights of the Awarded Customer against BPA. BPA will not agree to make cash remittances to any account other than the customary account designated by Awarded Customer and used by BPA for cash refunds to the Awarded Customer under its PSA.

APPENDIX A

OFFER

PLEASE NOTE: To constitute a conforming Offer, the Offeror must submit more than a single Offer form if the Offeror is offering to purchase more than one Block and the terms (apart from the Purchase Price per Block) are not identical across such Offers. Thus, separate Offer forms must be submitted if (i) the Offeror expects to fund its Prepayment for one or more Blocks through the issuance of Bonds and to fund its Prepayment for one or more Blocks without the issuance of Bonds, (ii) the Offeror elects to have the Market Rate Adjustment under Paragraph 5 of the RFO apply to some but not all of its Offers, or (iii) the Offeror establishes the Bond-Related Off-Ramps under Paragraph 6 of the RFO for some but not all of its Offers. Conversely, an Offeror may bundle a number of Offers using a single Offer form, but all Offers at different Purchase Prices so bundled must otherwise have identical terms in order to be considered conforming Offers.

Part I. Definitions

Unless otherwise provided, capitalized terms in this Offer shall have the meanings assigned to such terms in the Request for Offers of Bonneville Power Administration, dated August 14, 2012, (the “RFO”).

Part II. Offer(s)

All Offers presented herein are subject to all terms and conditions specified in the RFO, and each Offer so accepted by Bonneville Power Administration (“BPA”), as provided in the RFO, shall result in a binding contract between the Offeror and BPA with respect to such Offer, as provided in the RFO.

Pursuant to the RFO, [_____] (the “Offeror”) hereby offers to purchase Blocks from BPA as follows:

<u>Number of Blocks</u>	<u>Purchase Price per Block</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Part III. Certification of Authority and Intent to Issue Bonds

For all Offer(s) submitted herein, the Offeror must elect one of the following Alternatives:

Alternative #1: The Offeror does not propose to issue Bonds to fund any portion of its Prepayment pursuant to the Offer(s) made herein.

Alternative #2: The Offeror proposes to issue Bonds to fund some or all of its Prepayment pursuant to the Offer(s) made herein. The Offeror has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Offeror, to issue Bonds to fund its offered Prepayment(s) pursuant to the Offer(s) made herein.

Alternative #3: The Offeror expects [_____] (the “Bond Issuer”) to issue Bonds for the benefit of the Offeror to fund a portion or all of the Offeror’s Prepayment(s) pursuant to the Offer(s) made herein. The Bond Issuer has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Bond Issuer, to issue Bonds to fund the offered Prepayment(s) pursuant to the Offer(s) made herein.

The Offeror hereby elects Alternative __ for each Offer submitted herein. Initial here: _____.

Part IV. Estimated TIC and Initial Spread, Applicable Only to Offers to be Financed with Bonds

If the Offeror has selected Alternative # 2 or Alternative # 3 in Part III, the Offeror may establish an Off-Ramp under Paragraph 6(c)(ii)(A) of the RFO by providing the information in (1) – (4) of this Part IV as part of this Offer(s). Failure to provide such information shall mean that the Offeror has irrevocably waived its right to that Off-Ramp.

For purposes of this Part IV:

- “Offer Date Tested Bonds” means Bonds with characteristics described in (1) below that might be sold on November 29, 2012 and issued on November 30, 2012 to finance all or a portion of the Prepayment with respect to this Offer, with level monthly payments of principal and interest (or level monthly deposits to a mandatory debt service sinking fund), commencing February 1, 2013 and ending June 1, 2028.
- “True Interest Cost” or “TIC” means with respect to Offer Date Tested Bonds, the rate of interest, compounded semiannually, that would be required to discount (i) the payments of principal and interest to holders of Offer Date Tested Bonds to maturity to (ii) the purchase price paid by buy-and-hold investors in the Offer Date Tested Bonds. Thus, TIC on Offer Date Tested Bonds is determined without regard to costs of issuing the Offer Date Tested Bonds, funded interest, any amounts deposited to a debt service reserve account, or amounts paid for bond insurance or other credit enhancement with respect to the Offer Date Tested Bonds.

(1) As of November 30, 2012, the Offeror reasonably expects that Bonds with the following general characteristics *[for example, the Offeror’s senior lien electric system revenue bonds, the Offeror’s subordinate lien electric revenue bonds, other]* will be issued to fund a portion or all of the Prepayment(s) required pursuant to the Offer(s) made herein:

[_____]

(2) As published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, the yield on 10-year U.S. Treasury

obligations on November 29, 2012 was [X.XX] percent per annum (carried out to the second decimal).

- (3) If Offer Date Tested Bonds were sold on November 29, 2012 for delivery on November 30, 2012, the Offeror reasonably expects the TIC on those Offer Date Tested Bonds would be no more than [Y.YY] percent per annum (carried out to the second decimal).
- (4) Consequently, under conditions in the capital markets as of November 29, 2012, the Offeror reasonably expects the TIC on Offer Date Tested Bonds would not exceed the [X.XX] percent per annum (carried out to the second decimal) yield on 10-year U.S. Treasury obligations for November 29, 2012, published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, by no more than [Z.ZZ] percent per annum (carried out to the second decimal).

Part V. Market Rate Adjustment Election

For all Offer(s) submitted herein, the Offeror must elect one of the following Alternatives:

Alternative #A: The Offeror elects to apply the Market Rate Adjustment to the Purchase Price set forth in Part II.

Alternative #B: The Offeror elects ***not*** to apply the Market Rate Adjustment to the Purchase Price set forth in Part II.

The Offeror hereby elects Alternative #__ for each Offer submitted herein. Initial here: _____.

Part VI. Authority of the Undersigned

The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Offer on behalf of the Offeror.

[NAME OF OFFEROR]

By _____
Name _____
(Print/Type)
Title _____
Date _____

**FORM OF CERTIFICATION OF EXPECTED
TRUE INTEREST COST AND INITIAL SPREAD**

The undersigned hereby certifies as follows in connection with the offer(s) (the “Offer(s)”) submitted by [_____] (the “Offeror”) in response to the Request for Offers of Bonneville Power Administration, dated August 14, 2012. Unless otherwise provided, capitalized terms in this Certification of Expected True Interest Cost and Initial Spread (“Certification”) shall have the meanings assigned to such terms in the Offer(s) to which this Certification is attached:

1. The undersigned is an officer of [FINANCIAL ADVISOR] (the “Advisor”) and is duly authorized to execute and deliver this Certification on behalf of the Advisor.
2. The Advisor serves as an independent financial advisor to the Offeror in connection with the Offer(s).
3. The undersigned has reviewed the Offer(s).
4. Under conditions in the capital markets on the date of this Certification, the Advisor certifies that it is reasonable for the Offeror to expect:
 - a. the TIC on Offer Date Tested Bonds would be no greater than [X.XX] percent per annum (carried out to the second decimal), as set forth in the Offer; and
 - b. the Initial Spread therefore does not exceed [X.XX] percent per annum (carried out to the second decimal).

[NAME OF ADVISOR]

By _____

Name _____
(Print/Type)

Title _____

Date _____

APPENDIX B

LIMIT ON AMOUNT OF OFFERS

Background - Net Billing Cushion. BPA and most preference customers (“Participants”) have entered into separate Net Billing Agreements to cover the costs of Energy Northwest’s Net Billed Projects. In these agreements, BPA has agreed to provide net billing credits against each Participant’s monthly bills for the purchase of power and related services received from BPA. These net billing credits are to be applied against the Participant’s purchases of electricity or transmission service from BPA. In consideration of these net billing credits, each Participant has agreed to remit an equivalent amount of funds to Energy Northwest. Thus, a preference customer’s capacity to purchase Blocks from BPA could be constrained by the existing Net Billing Agreements. In the Net Billing Agreements, BPA and each Participant have covenanted not to enter into further agreements providing for payments (including credits) by BPA to the Participant unless, as determined by BPA, for each future Contract Year the total expected cash value of purchases of electricity and transmission services by the Participant from BPA will equal at least 115% of the aggregate of all expected billing credits to be provided by BPA to the Participant under the Energy Northwest Net Billing Agreements and any additional agreements providing for net billing.* BPA has entered into certain direct payment arrangements with Energy Northwest which may obviate net billing. Direct payments could cease however, and net billing could be reinstated. For purposes of this calculation, direct payments and the existence of the direct payment arrangements are assumed not to exist.

Prepayment Limit. Offerors may not submit Offers to purchase Blocks representing an aggregate annual value of electricity exceeding the lesser of:

(A) for any Contract Year from 2014 through 2018, the smallest amount of:

$$L + M - N(1.15)$$

where L = amount BPA expects to bill the Offeror for purchases of firm power during the Contract Year, M = amount BPA expects to bill the Offeror for purchases of transmission services during the Contract Year, and N = the Offeror’s expected aggregate net billing obligations (in the absence of BPA direct payment) during the Contract Year; or

(B) 50% of the smallest amount expected to be paid by the Offeror to BPA for firm power purchased during any Contract Year from 2014 through 2018.

* See, for example, the Project 2 (now Columbia Generating Station) Net Billing Agreements, Section 7(d) (“The Administrator and the Participant shall not enter into any agreements providing for payments [this means net billing credit obligations] which the Administrator estimates will cause the aggregate of his billings to the Participant to be less than 115 percent of the Administrator’s net billing obligations to the Participants under all agreements providing for net billing”), and Section 7(g) (“The estimates by the Administrator under this agreement of billing credits and of payments to be made by the Participant and the Administrator giving rise to such billing credits shall be conclusive”).

APPENDIX C

NOTICE OF ESTABLISHMENT OF A LOCK-IN DATE

1. Under [its][certain] Offer(s) submitted to and accepted by the Bonneville Power Administration (“BPA”) in connection with its Request for Offers, dated August 14, 2012 (“RFO”), the entity on behalf of which this Notice is provided (“Customer”) has designated in its Offer(s), that the Purchase Price to be paid for the related Offer(s) accepted by BPA will be subject to later adjustment (“Market Rate Adjustment”) and that the contract(s) formed in respect of such Offer(s) may be terminated by [Name of Customer] under the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) of the RFO (“Adjustment Cap Off-Ramp”).
2. As provided in Paragraph 5 of the RFO, the Customer hereby establishes [_____], 201_, as the Lock-In Date with respect to the following accepted Offer(s):

[Description of accepted Offer(s) to which this Notice applies.]

This designated Lock-In Date is a business day, is not earlier than three (3) business days following the date of this Notice, and is not later than March 19, 2013.

3. Customer may cancel the Lock-In Date designated in this Notice at any time prior to 5:00 PM Pacific Time on the designated Lock-In Date, effective at the time BPA receives notice thereof, at which point the Customer shall be free to designate a new Lock-In Date by notice to BPA, subject to the limitation in Paragraph 2 of this Notice that in no instance shall the new Lock-In Date be later than the earlier of (i) three (3) business days following the date of this Notice, or (ii) March 19, 2013.
4. The undersigned is an officer of Customer and is duly authorized on behalf of the Customer to execute and deliver this Notice of Exercise of Adjustment Cap Off-Ramp on behalf of the Customer.

[NAME OF CUSTOMER]

By _____

Name _____
(Print/Type)

Title _____

Date _____

APPENDIX D

CERTIFICATION OF INDEPENDENT OFFER(S)

The undersigned hereby certifies as follows in connection with all offer(s) ("Offer(s)") submitted by [_____] ("Offeror") in response to the Request for Offers of Bonneville Power Administration ("BPA"), dated August 14, 2012 (the "RFO"):

1. The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Certification of Independent Offer(s) on behalf of the Offeror.
2. The undersigned participated actively in the Offeror's preparation of the Offer(s), including the decision as to the price(s) to be included in the Offer(s).
3. In preparing and submitting the Offer(s), except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers, neither the Offeror nor any officer or employee of the Offeror directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.
4. To the best of the knowledge and belief of the undersigned, except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers, no individual who has provided consulting services to the Offeror in connection with the Offeror's preparation of the Offer(s) directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.

[NAME OF OFFEROR]

By _____

Name _____
(Print/Type)

Title _____

Date _____

APPENDIX E

MARKET RATE ADJUSTMENT

Market Rate Adjustment (as defined and explained in Paragraph 5) =

$$P_{t+1} - P_t$$

where:

$$P_{t+1} = \sum_{m=1}^N \frac{C_m}{(1 + r_{t+1}/12)^m}$$

$$P_t = \sum_{m=1}^N \frac{C_m}{(1 + r_t/12)^m}$$

- P_{t+1} = Market Clearing Purchase Price per Block as adjusted by Market Rate Adjustment as of the Lock-In Date
- P_t = Market Clearing Purchase Price per Block (RFO Paragraph 4(g), announced on December 4, 2012 (RFO, Paragraph 4(h)(iii)))
- N = 186 (Total number of months for which power is prepaid -- April 1, 2013 through September 30, 2028)
- C_m = \$50,000 (Prepayment Credit per Block for month m)
- r_{t+1} = $i_{t+1} + \delta$, where i_{t+1} = yield on 10-year Treasury obligations for the Lock-In Date, as published by the U.S. Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>
- δ = Basis as defined by Market Clearing Purchase Price (RFO Paragraph 4(g)) announced on December 4, 2012 (RFO, Paragraph 4(h)(iii))
- r_t = $i_t + \delta$, where i_t = yield on 10-year U.S. Treasury obligations for November 29, 2012, as published by the U.S. Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>

APPENDIX F

**EXERCISING THE OFFEROR OFF-RAMPS UNDER PARAGRAPHS 6(c)(i)
AND 6(c)(ii)(A) OF THE RFO**

**APPENDIX F, PART I – NOTICE OF TERMINATION UNDER PARAGRAPH 6(c)(i)
(ADJUSTMENT CAP OFF-RAMP) OF THE RFO**

1. [Name of Awarded Customer] has established its right to exercise the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) of the RFO (“Adjustment Cap Off-Ramp”) under certain Offers submitted to and accepted by the Bonneville Power Administration (“BPA”) in connection with its Request for Offers, dated August 14, 2012 (“RFO”), and therefore may exercise such Adjustment Cap Off-Ramp with respect to any Prepayment for which such Adjustment Cap Off-Ramp has been established.
2. Unless otherwise provided, capitalized terms in this Notice of Termination under Paragraph 6(c)(i) of the RFO (“Notice of Exercise of Adjustment Cap Off-Ramp”) shall have the meanings assigned to such terms in the RFO.
3. The Lock-In Date for the accepted Offer(s) to which the Adjustment Cap Off-Ramp applies and is being exercised is the date hereof, [INSERT DATE], 201_.
4. Determination:
Applying the Market Rate Adjustment formula set forth in Appendix D to the RFO, the Adjustment Cap is in effect on the Lock-In Date for the Prepayment(s) to which the Adjustment Cap Off-Ramp was established.
5. Exercise of Adjustment Cap Off-Ramp Right:
[Name of Awarded Customer] hereby irrevocably elects to terminate the contract formed in respect of its Offer(s) to which the Adjustment Cap applies, including without limitation its obligations to make Prepayments under Paragraph 6(c)(i) of the RFO with respect to the [Insert Number] of Blocks associated with those (those) Offer(s).
6. Certification of Authorized Officer:
The undersigned is an officer of [Name of Awarded Customer] and is duly authorized on behalf of the [Name of Awarded Customer] to execute and deliver this Notice of Exercise of Adjustment Cap Off-Ramp on behalf of the [Name of Awarded Customer].

[NAME OF AWARDED CUSTOMER]

Date _____

By _____

Name _____
(Print/Type)

Title _____

APPENDIX F

EXERCISING THE OFFEROR OFF-RAMPS UNDER PARAGRAPHS 6(c)(i) AND 6(c)(ii)(A) (BOND-RELATED OFF-RAMPS) OF THE RFO

APPENDIX F, PART II – FORM OF NOTICE OF TERMINATION UNDER PARAGRAPH 6(c)(ii)(A) OF THE RFO

A. Estimated TIC and Termination Spread:

[Name of Awarded Customer] has established the Offeror Off-Ramp under Paragraph 6(c)(ii)(A) of the RFO (“Off-Ramp”) under certain Offers submitted to and accepted by the Bonneville Power Administration (“BPA”) in connection with its Request for Offers, dated August 14, 2012 (“RFO”), and therefore may exercise such Off-Ramp with respect to any accepted Offer for which such Off-Ramp has been established, but only if [Name of Awarded Customer] provides to BPA the information as provided in this Part II of this Appendix F to the RFO, together with the attached certification of the financial advisor to the [Name of Awarded Customer].

Unless otherwise provided, capitalized terms in this Notice of Termination under Paragraph 6(c)(ii)(A) (Bond-Related Off-Ramps) of the RFO (“Notice”) shall have the meanings assigned to such terms in the RFO.

B. Definitions:

For purposes of this Appendix F, Part II:

- “Lock-In Date Tested Bonds” means Bonds with characteristics described in (C)(2) below that might be sold on Lock-In Date and issued on or about March 29, 2013 to finance all or a portion of the Prepayment with respect to this Offer, with level monthly payments of principal and interest (or level monthly deposits to a mandatory debt service sinking fund), commencing June 1, 2013 and ending October 1, 2028.
- “True Interest Cost” or “TIC” means with respect to Lock-In Date Tested Bonds, the rate of interest, compounded semiannually, that would be required to discount (i) the payments of principal and interest to holders of Lock-In Date Tested Bonds to maturity to (ii) the purchase price paid by buy-and-hold investors in the Lock-In Date Tested Bonds. Thus, TIC on Lock-In Date Tested Bonds is determined without regard to costs of issuing the Lock-In Date Tested Bonds, funded interest, any amounts deposited to a debt service reserve account, or amounts paid for bond insurance or other credit enhancement with respect to the Lock-In Date Tested Bonds.

C. Information:

1. The Lock-In Date for the Prepayment(s) in connection with the accepted Offers is [INSERT DATE], 201_.
2. In its Offer(s) dated November 30, 2012, the Awarded Customer certified that it reasonably concluded that Bonds with the following general characteristics were planned to be issued to fund the Prepayment(s)

required pursuant to the Offer(s) accepted by BPA under the RFO:
[_____]

3. In Part IV of the Offer, the Offeror estimated that the Initial Spread to be not greater than [Z.ZZ] percent per annum (carried out to the second decimal).
4. Under conditions in the capital markets on the Lock-In Date for the Offer(s), [Name of Awarded Customer] reasonably estimates the TIC on Offer Date Tested Bonds would be no less than [Y.YY] percent per annum (carried out to the second decimal).
5. As published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, the yield on 10-year U.S. Treasury obligations for the business on the business day immediately preceding the Lock-In Date for the Offer(s) was [X.XX] percent per annum (carried out to the second decimal).
6. Consequently, under conditions in the capital markets on the Lock-In Date for the Offer(s), [Name of Awarded Customer] reasonably estimates that the TIC on Tested Bonds would exceed [X.XX] percent per annum by at least [Z.ZZ] percent per annum (carried out to the second decimal), and is greater than 0.25 percent per annum.

D. Exercise of Off-Ramp Right:
[Name of Awarded Customer] hereby irrevocably elects to terminate the contract formed in respect of its Offer(s) to which Paragraph 6(c)(ii)(A) of the RFO applies, including without limitation its obligation to make Prepayments with respect to the [Insert Number] Blocks associated with that (those) Offer(s).

E. Certification of Authorized Officer:
The undersigned is an officer of [Name of Awarded Customer] and is duly authorized on behalf of the [Name of Awarded Customer] to execute and deliver this notice of termination under Paragraph 6(c)(ii)(A) of the RFO on behalf of the [Name of Awarded Customer].

[NAME OF AWARDED CUSTOMER]

By _____

Name _____
(Print/Type)

Title _____

Date _____

APPENDIX F

**EXERCISING THE OFFEROR OFF-RAMPS UNDER PARAGRAPHS 6(c)(i)
AND 6(c)(ii)(A) OF THE RFO**

**APPENDIX F, PART III – FORM OF NOTICE OF TERMINATION UNDER
PARAGRAPH 6(c)(ii)(A) OF THE RFO, CERTIFICATION BY FINANCIAL
ADVISOR**

The undersigned hereby certifies as follows in connection with the Notice of Termination under Paragraph 6(c)(ii)(A) of the RFO (“Termination Notice”) submitted by [Name of Awarded Customer] dated [INSERT DATE], 201_, in connection with the RFO. Unless otherwise provided, capitalized terms in this Certification of True Interest Cost and Termination Spread (“Certification”) shall have the meanings assigned to such terms in the Termination Notice to which this Certification is attached:

- A. The undersigned is an officer of [NAME OF FINANCIAL ADVISOR] (the “Advisor”) and is duly authorized to execute and deliver this Certification on behalf of the Advisor.
- B. The Advisor serves as an independent financial advisor to the [Name of Awarded Customer] in connection with the Termination Notice.
- C. The undersigned has reviewed the Termination Notice.
- D. Under conditions in the capital markets on the Lock-In Date for the Offer(s), the Advisor certifies that it is reasonable for the [Name of Awarded Customer] to conclude: the TIC on Lock-In Date Tested Bonds would be no less than [Y.YY] percent per annum (carried out to the second decimal), as set forth in the Termination Notice.

[NAME OF FINANCIAL ADVISOR]

By _____

Name _____
(Print/Type)

Title _____

Date _____

APPENDIX G

OFFEROR OFF-RAMPS FOR NON-CLOSING OF FINANCING

As described in Paragraph 6(c)(ii)(B) of the RFO, an Awarded Customer that is proposing to use proceeds of Bonds to fund its Prepayment(s) shall have the right to terminate its obligation to make Prepayments if any of the following conditions exists and such condition has or conditions have resulted in or will result in either (a) a failure to enter into a Bond Purchase Agreement within three (3) business days following the Lock-In Date, or (b) a failure to close the related Bond sale by March 29, 2013:

1. the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any outbreak of hostilities or escalation thereof or other national or international calamity or crisis or a financial crisis, the effect of such outbreak, calamity or crisis on the financial markets of the United States of America being such as, in the reasonable opinion of the Bond purchaser or underwriter, would affect materially and adversely the marketability of the Bonds;
2. there shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or [host state] or a material disruption in commercial banking activities or securities settlement or clearance services shall have occurred;
3. there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any rating by Moody's, S&P or Fitch of the Bonds, or debt instruments of a character and credit quality similar to the Bonds, or any other securities issued by the Bond Issuer;
4. as of the Lock-In Date, an event shall have occurred which might or would cause an Official Statement or other offering document for Bonds, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or
5. legislation shall be enacted, or actively considered for enactment, or a decision by a court of competent jurisdiction shall hereafter be rendered, or action shall hereafter be taken or a ruling or regulation shall hereafter be issued by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject, to the effect that the issuance, offering or sale of the Bonds, or obligations of the general character of the Bonds, is in violation of, or that such obligations are not exempt from the registration, qualification under or other similar requirements of, the Securities Act of 1933, amended and as then in effect, or of the Trust Indenture Act of 1939, as amended and as then in effect.

APPENDIX H

FORM OF REVISION TO EXHIBIT D TO PSA

Revision No. «#», Exhibit D
ADDITIONAL PRODUCTS AND SPECIAL PROVISIONS
Effective on March 29, 2013

This revision adds section «#» to this Exhibit D to capture the terms and conditions of «Customer Name»'s participation in the prepayment program and renumbers the Revisions section.

#. «CUSTOMER NAME»'S PARTICIPATION IN PREPAYMENT PROGRAM

#.1 General

Drafter's Note: If customer participates in more than one prepay program, repeat (copy and paste) the paragraph below for each year/program the customer participates in; insert additional "«Year» RFO" throughout document as necessary.

«Customer Name» submitted one or more offers under BPA's "Request for Offers for Prepayment of Electricity, Contract No. 12PS-«#####»," («Year» Prepayment RFO) to purchase "Blocks" as defined in the «Year» Prepayment RFO. *Drafter's Note: Include the following sentence for Slice/Block customers:*«The use of the term "Blocks" is not intended to have the same definition as Blocks of power or the Block product as otherwise defined in the body of the Agreement.» BPA has accepted «Customer Name»'s offer(s) under the conditions provided in the «Year» Prepayment RFO. A Prepayment is the dollar amount prepaid by «Customer Name» for a single Block.

By virtue of the offer(s) submitted by «Customer Name» to BPA under the «Year» Prepayment RFO and the acceptance by BPA thereof, «Customer Name» and BPA contracted, among other things, to the following obligations: (1) «Customer Name» has agreed to provide in aggregate \$«insert \$ amount» with respect to the Prepayment(s) by «Customer Name» (such aggregate amount is referred to herein as the Unadjusted Prepayment Amount) for electric power to be delivered by BPA under this Agreement, as modified by the Market Rate Adjustment pursuant to Paragraph 5(d) of the «Year» Prepayment RFO, if elected by «Customer Name» (the Prepayment Amount); provided, that, to the extent no Market Rate Adjustment pursuant to Paragraph 5(d) of the «Year» Prepayment RFO was elected by «Customer Name», the Prepayment Amount shall be identical to the Unadjusted Prepayment Amount), and (2) conditioned upon receipt by BPA of the Prepayment Amount from «Customer Name», BPA shall provide to «Customer Name»: (a) certain Prepayment Credits, which shall entitle «Customer Name» to reductions to the amount on «Customer Name»'s monthly power bill that would otherwise be owed

to BPA for electric power (also referred to herein as “electricity”) purchased under this Agreement, and (b) certain cash remittances that may arise if Excess Prepayment Credits are deemed assigned to other BPA power customers as set forth in section #.3 of this exhibit. The Prepayment Credits are defined to be the dollar amounts that a customer making an electric power Prepayment under a Prepayment RFO (Prepaying Customer) would have paid in the related month but for the amount it prepaid, and are reductions to the amount that otherwise would be payable with respect to the Prepaying Customer’s purchases of electricity from BPA. Thus, the *quantity* of electricity (megawatts or megawatt-hours) to which a Prepayment applies shall vary, depending on BPA’s rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA’s rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits under section #.3 of this exhibit). The Prepayment Credits reflect the value of electricity attributable to the Prepayment(s) made by «Customer Name» for each month as set forth in the Prepayment Credit Schedule(s) provided in section #.3.1 of this exhibit. Prepayment Credits are associated with and reflect the right of «Customer Name» to receive delivery of a specified value of electricity from BPA each month.

#.2 Effective Date and Termination of Prepayment Obligations

Drafter’s Note: If the customer participates in more than one prepayment program, the revision number and the year of the Prepayment RFO in following paragraph should reflect the most recent year that the customer participated in a prepay program.

This Revision No. «#» to Exhibit D was executed by «Customer Name» in connection with its submission of one or more offers to purchase Blocks under the «Year» Prepayment RFO and was subsequently executed by BPA after inclusion of the Unadjusted Prepayment Amount and Prepayment Credit Schedule derived under the offer(s) and acceptance thereof by BPA under the «Year» Prepayment RFO.

Drafter’s Note: If customer participates in more than one prepayment program, insert additional appropriate date and “«Year» Prepayment RFO”.

The provisions under section # of this exhibit, shall take effect on March 29, 2013 and shall remain in effect until all obligations hereunder are satisfied; provided, however, that, if (1) BPA for any reason does not receive the Prepayment Amount on or before March 29, 2013, or (2) the obligations of «Customer Name» to provide the Prepayment Amount and the obligations of BPA to provide Prepayment Credits are terminated under the provisions of the «Year» Prepayment RFO and the contract(s) formed thereunder, then the provisions of this section # of this exhibit shall also be terminated and shall have no further force or effect.

#.3 Obligation to Provide Prepayment Credits/Remit Cash Payments

#.3.1 Scheduled Prepayment Credits

Upon receipt by BPA of the Prepayment Amount from «Customer Name», BPA shall provide to «Customer Name» Prepayment Credits throughout the remaining term of this Agreement as provided under the following Prepayment Credit Schedule:

«Customer Name»'s Prepayment Credit Schedule Under the «Year» Prepayment RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013	N/A	N/A	N/A	N/A	N/A	N/A							
FY 2014-2028													

Note: The prepayment program offered in 2012 only allowed for equal Prepayment Credits every month from April 2013 through the remaining term of the Agreement.

Drafter's Note: For offer in 2012, the next paragraph and table should be deleted. Include the following for customers that participate in more than one year of Prepay Programs. If the customer participates in a subsequent prepay program, the table below should be filled in to represent the prior Prepayment Credit Schedule(s) that is included in section #.3.1 below.

«Customer Name» previously has made one or more Prepayments to BPA in return for the right to purchase electric power from BPA pursuant to this Agreement, represented by monthly Prepayment Credits for Fiscal Years 2013 through 2028 as follows:

«Customer Name»'s Pre-Existing Prepayment Credit Schedule Under the «Year» Prepayment RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013	N/A	N/A	N/A	N/A	N/A	N/A							
FY 2014-2028													

Note: «Insert any information needed specific to the subsequent Prepay RFP Prepayment Credit Schedule»

End Option

In certain circumstances BPA shall remit cash to «Customer Name» as provided in section #.3.2 of this exhibit. Prepayment Credits that are not otherwise applied shall carry forward to future months as provided in section #.3.3 of this exhibit.

So long as the amount of «Customer Name»'s monthly bill exceeds the monthly amount of the Prepayment Credit, then

«Customer Name» shall pay BPA the net amount due after the Prepayment Credit is applied, consistent with the billing and payment terms and conditions of section 16 of the body of this Agreement.

#.3.2 Deemed Assignments Where Prepayment Credits Are Greater Than Monthly Amount Owed

If the amount of «Customer Name»'s monthly bill for electric power is less than the month's Prepayment Credit (including any Carry Forward Prepayment Credit described in section #.3.3 of this exhibit), which shall be called Excess Prepayment Credit, then BPA shall apply the methodology set forth in section #.3.5 of this exhibit to (1) deem the Excess Prepayment Credit to be assigned to other customers' electric power purchases from BPA in such month and (2) to the extent of such deemed assignments, remit as a cash payment to «Customer Name» an amount equal to the Excess Prepayment Credit.

#.3.3 Carry Forward of Prepayment Credits

- (1) In the event that electric power purchases from BPA by other customers in an applicable month are insufficient to enable deemed assignments of all Excess Prepayment Credits of all Prepaying Customers with respect to that month under section #.3.2 of this exhibit, the excess representing «Customer Name»'s share (Carry Forward Prepayment Credits) shall accumulate. In each succeeding month, after applying the scheduled Prepayment Credit(s) under section #.3.1 of this exhibit, BPA shall either (a) apply «Customer Name»'s Carry Forward Prepayment Credits to «Customer Name»'s purchases of electric power from BPA during that month, or (b) give effect to deemed assignments of «Customer Name»'s Carry Forward Prepayment Credits that become Excess Prepayment Credits with respect to that month to the extent set forth in section #.3.2 of this exhibit.
- (2) The crediting under section #.3.3(1)(a) of this exhibit and the remittance of cash by BPA under sections #.3.3(1)(b) and #.3.4 of this exhibit shall continue until such time as the balance of Carry Forward Prepayment Credits and Excess Prepayment Credits for «Customer Name» is zero; provided, however, that, the application of «Customer Name»'s Carry Forward Prepayment Credits to «Customer Name»'s purchases of electric power from BPA under section #.3.3(1)(a) of this exhibit shall extend past

November 30, 2032 but only if and to the extent there is in effect between «Customer Name» and BPA one or more agreements for the sale of electric power by BPA to «Customer Name» after such date. BPA's obligations in this section #.3.3 shall survive the termination or expiration of this Agreement and upon termination or expiration of this Agreement shall continue in effect with respect to future power sales by BPA, including to «Customer Name» and shall constitute a wholly independent obligation of BPA in consideration of its receipt of the Prepayment Amount.

- (3) BPA shall have no obligation to compensate «Customer Name» for any actual or implied cost of funds or the time value of money arising from the occurrence, accumulation, application, deemed assignment or use of Carry Forward Prepayment Credits or Excess Prepayment Credits.
- (4) In no event shall BPA be required to remit cash payments to «Customer Name» if, for any reason, «Customer Name» does not use its Prepayment Credits and BPA is unable to assign resulting Excess Prepayment Credits to other customers as set forth in this section # of this exhibit.

#.3.4 Remittance of Cash by BPA

BPA shall remit cash payments to «Customer Name» under sections #.3.2 and #.3.3(2) of this exhibit via an electronic funds transfer by the Due Date for the month following the month in which the reassignments under sections #.3.2 and #.3.3(2) of this exhibit shall have been deemed to have been made. The term "Due Date" shall have the meaning as defined in section 16.2 of the body of this Agreement (or its equivalent date if this Agreement is no longer in effect). BPA shall transfer the remittances hereunder to «Customer Name»'s specified account to which BPA provides refunds under this Agreement.

#.3.5 Methodology for Deeming Assignments of Excess Prepayment Credits to Other Customers

Applying the principles set forth in this section #.3.5 of this exhibit, BPA shall make deemed assignments of Excess Prepayment Credits to other customers only to the extent that such other customers' cash payments for electric power purchases from BPA during the applicable month are greater than or equal to the aggregate of all Excess Prepayment Credits attributed by BPA to «Customer Name» and to other Prepaying Customers for the applicable month.

(1) **Deemed Allocations Only to Non-Prepaid Purchases of Electric Power**

Excess Prepayment Credits shall not be deemed to be assigned to any customer with respect to electric power purchased by that customer from BPA pursuant to any prepay contract.

(2) **Deemed Allocations Only to the Extent of Payments Actually Received by BPA**

Excess Prepayment Credits shall be deemed to be assigned to other customers only to the extent such other customers in fact have made payment to BPA on or before the last day of the following calendar month.

(3) **Qualified Utilities**

For purposes of this section #.3.5, a Qualified Utility shall be defined as a public body that is served by BPA and that has a retail service area that the public body has served continuously for at least five consecutive years, as of March 29, 2013.

(a) If «Customer Name» is a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other Qualified Utilities, then to other electric power customers that are not Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received by BPA for purchases of electric power from BPA from all such customers in the applicable month.

(b) If «Customer Name» is not a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other customers that are not Qualified Utilities, then to Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received

by BPA for purchases of electric power from BPA from all such customers in the applicable month.

(4) **Allocation of Deemed Assignments Among Prepaying Customers**

If the aggregate amount of Prepayment Credits for a month exceeds the aggregate amount paid by other customers to which those Prepayment Credits might be deemed assigned pursuant to section #.3.2 or section #.3.3 of this exhibit, then:

- (a) purchases by customers that are Qualified Utilities but not Prepaying Customers shall first be allocated pro rata to Excess Prepayment Credits of Qualified Utilities;
- (b) purchases by customers that are not Qualified Utilities and not Prepaying Customers shall first be allocated pro rata to Excess Prepayment Credits of non-Qualified Utilities; and
- (c) any remaining purchases by customers that are not Prepaying Customers shall be deemed assigned pro rata to the Excess Prepayment Credits remaining after applying section #.3.5(1) and section #.3.5(2) of this exhibit.

#.4 Rights and Remedies

#.4.1 Withholding Performance

No provision in this section # of this exhibit shall allow or shall be interpreted to allow BPA to cease, suspend or withhold: (1) delivering electric power otherwise required to be delivered pursuant to this Agreement; (2) application of Prepayment Credits as described in sections #.3.1 and #.3.3 of this exhibit; (3) deemed assignments as described in sections #.3.2 and #.3.3 of this exhibit; or (4) remitting cash to or for the account of the Prepaying Customer as described in sections #.3.2 and #.3.3 of this exhibit.

#.4.2 No Refunds or Schedule Alterations

«Customer Name» shall have no right to a refund of any amount or balance remaining of its Prepayment Amount if this Agreement is terminated prior to September 30, 2028, pursuant to section 25 of the body of this Agreement. «Customer Name» may not alter the schedule of its Prepayment Credits pursuant to section 25 of the body of this Agreement.

#.4.3 Money Judgments, No Acceleration

As set forth in section 22.4 of the body of this Agreement, money damages are the exclusive remedy available in the event BPA should fail to perform any of its obligations under this Agreement, including any failure by BPA to perform its obligations under this section # of this exhibit. In no event may «Customer Name» cause any of BPA's obligations under this section # of this exhibit to come due prior to the date specified (for example, the customer may not seek, as a remedy, to have BPA give effect to Prepayment Credits prior to the Dates specified herein.). BPA's breach or non-performance under the provisions of this section # of this exhibit shall not lead to an acceleration of any kind of the future remaining performance of BPA's cash payment or crediting obligations hereunder. The provisions of this section # of this exhibit shall not be interpreted to affect other obligations under this Agreement except as specifically provided herein.

#.5 No Guarantee by BPA of Any Bonds or Other Debt

Nothing in this Agreement establishes or shall be interpreted to establish a guarantee of the payment of principal of or interest on any bonds or other debt issued by or for the benefit of «Customer Name» to fund its Prepayment Amount or to refund or refinance such debt. If bonds are issued to fund a Prepayment, disclosure materials are prepared with respect to those bonds, and those disclosure materials include a description of the provisions in this section # of this exhibit, then those disclosure materials also shall include the following statement: *"The [Name of Bonds or related debt instrument(s)] are not a debt or other obligation of Bonneville Power Administration, and the [Name of Bonds or related debt instrument(s)] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund."*

#.6 No Third Party Beneficiaries, Limited Right to Assign

There are no third party beneficiaries to this section # of this exhibit, provided, however, «Customer Name» may pledge or otherwise grant a security interest in BPA's remittances of cash reflecting (1) BPA's deemed sales of electric power for the account of the «Customer Name» described in sections #.3.2, #.3.3 and #.3.4 of this exhibit, and (2) money damages arising from any breach by BPA of its obligations under this Agreement. However, «Customer Name» shall not assign its claims under the provisions of this section # of this exhibit or enter into any agreement that in any manner purports to provide to a third party a right to any electric power purchased from BPA (including under this section # of this exhibit) or to bring any legal action against BPA to enforce the rights of «Customer Name» under the provisions of this section # of this exhibit against BPA. If «Customer Name» purports to make such an assignment or agreement, it shall have no effect.

X. SIGNATURES

The Parties have executed this exhibit revision as of the last date indicated below. Execution of this exhibit revision also constitutes execution of the «Year» Prepayment RFO, Contract No. 12PS-«#####».

«FULL NAME OF CUSTOMER»

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____

By _____

Name _____
(Print/Type)

Name _____
(Print/Type)

Title _____

Title _____

Date _____

Date _____

ATTACHMENT B

ACCESS TO CAPITAL WORKSHOP MATERIALS



Access to Capital Workshop

July 26, 2012

1 pm – 5 pm

Rates Hearing Room

Portland, Oregon

503-230-5566

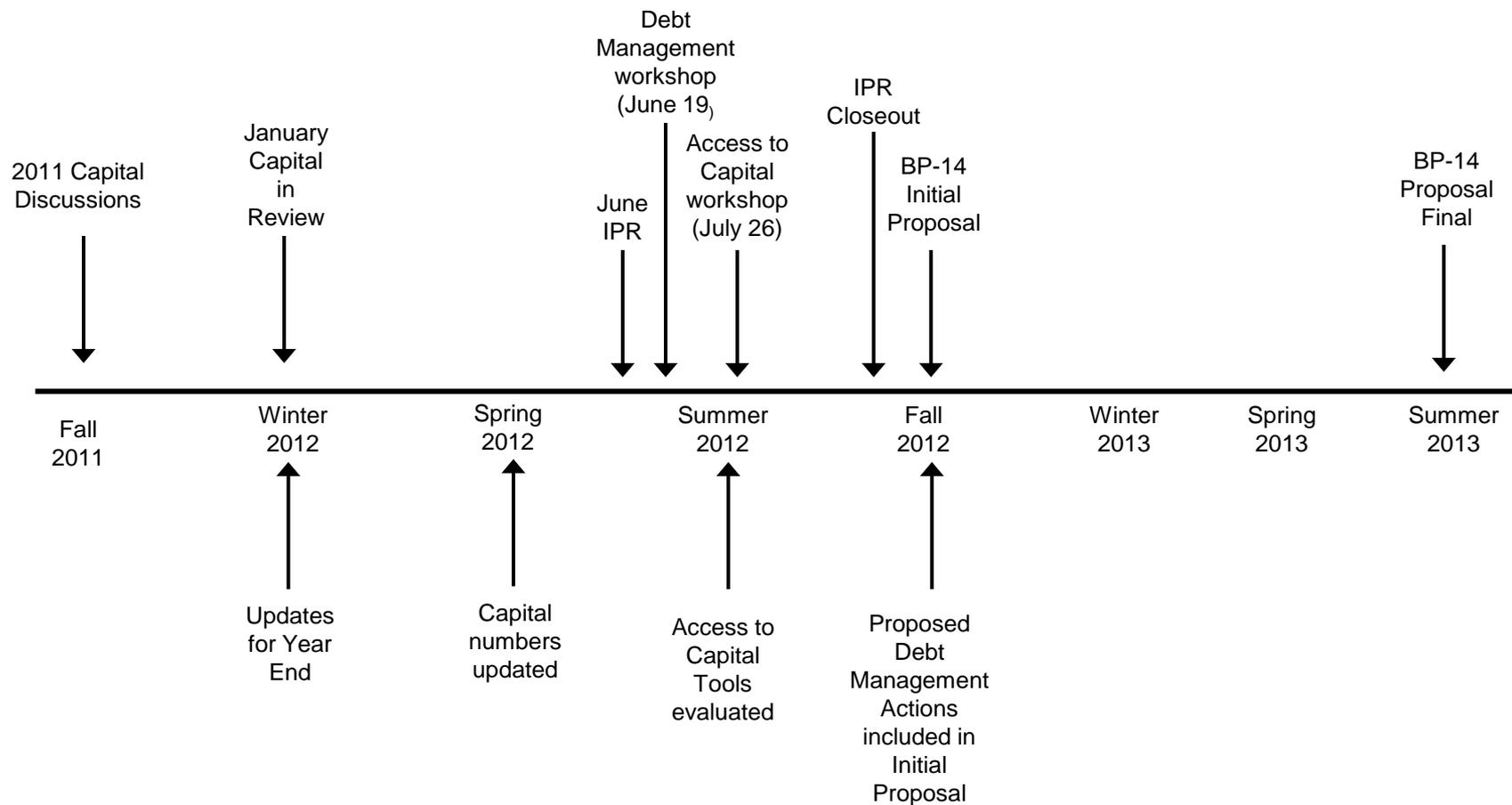
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Agenda

- Background & Context
- Updates to Capital Base
- Financing Tool Combinations to Reach the 10-Year Target
- Summary of Financing Tools and Combinations
 - Individual Tools
 - Alternate Transmission Financing
 - Anticipated Accumulation of Cash (AAC)
 - Combinations of Tools
 - WNP-1 and WNP-3 Extension
- Cost and Utilization of non-Federal Financing Tools
- Capital Prioritization and Modifications
- Overall Summary/Next Steps

Timeline



Purpose of Today's Meeting

- The purpose of today's meeting is to continue discussion of BPA's access to capital challenge and get feedback on the capital financing tools.
- The discussion of funding tools and BPA's combinations of those tools can help in the development of comments on the capital programs in the IPR process.
- This discussion will present the most current US Treasury borrowing authority picture and discuss the adequacy of the funding tools.
- BPA's major goals regarding access to capital are:
 - Maintaining continued access to Treasury borrowing authority on a rolling 10-year basis using a mix of Federal and non-Federal sources of capital
 - Reserving \$750 million of the Treasury borrowing authority for Treasury line of credit, which provides for risk mitigation in lieu of holding equivalent financial reserves
 - Ensuring capital financing requirements are met at lowest overall cost
- Scenarios shown achieve the 10-year target with the available tools.

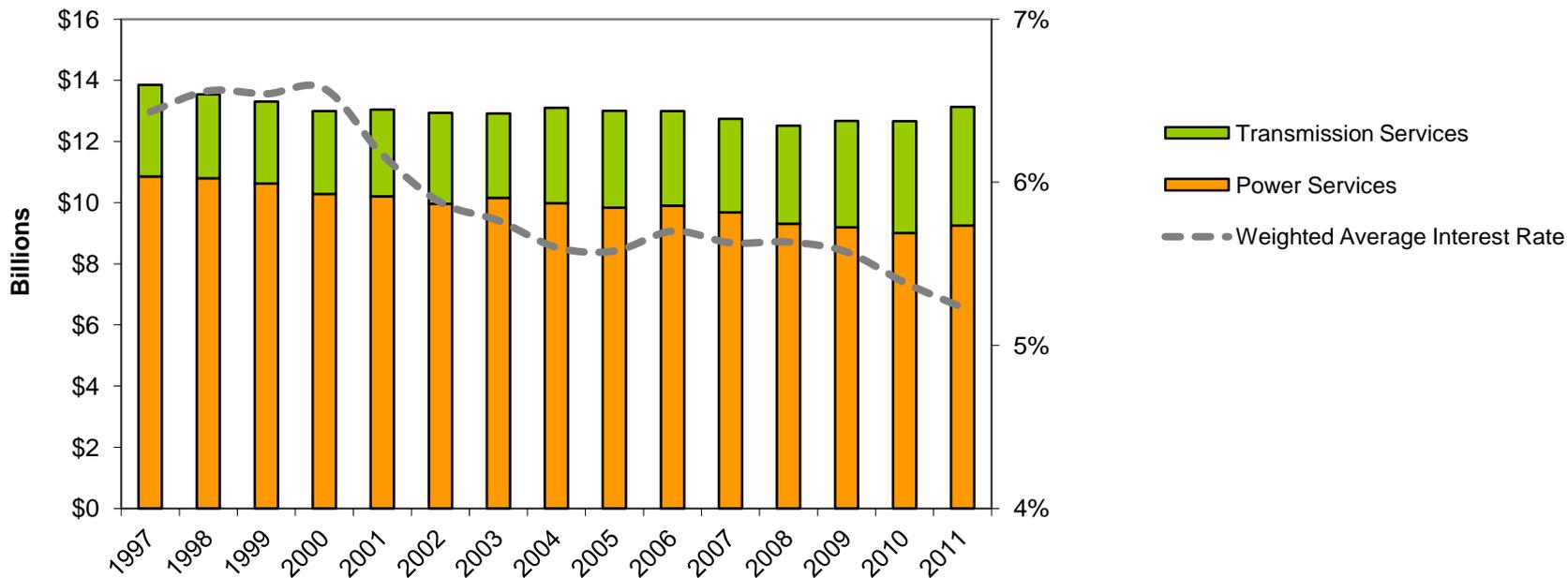
Background/Context

- This meeting builds on discussions from last fall and early spring on access to capital issues.
- BPA's goal is to ensure capital financing over a rolling 10-year period.
- The debt management workshop and IPR workshops last month set the stage for our discussions on capital funding challenges.
- Development of a Capital Access Strategy and plan is part of BPA's 2012 Key Agency Targets, and is among BPA's highest priorities.
- Input and feedback from today's meeting can help influence this plan.
- There continues to be no easy answer for implementing new non-Federal financing tools given their advantages and disadvantages.
- If BPA does not act now, US Treasury borrowing authority could be exhausted in 2016. Today's presentation includes scenarios that could ensure capital financing over the next 10 years.

A Look at the Total Portfolio:

BPA's Outstanding Liabilities Over Time

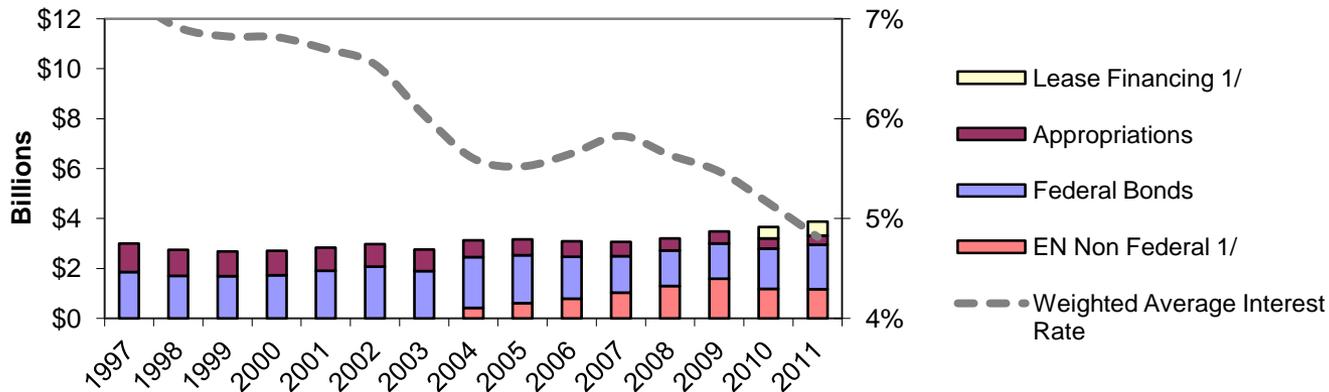
Federal Columbia River Power System



A Look at the Total Portfolio:

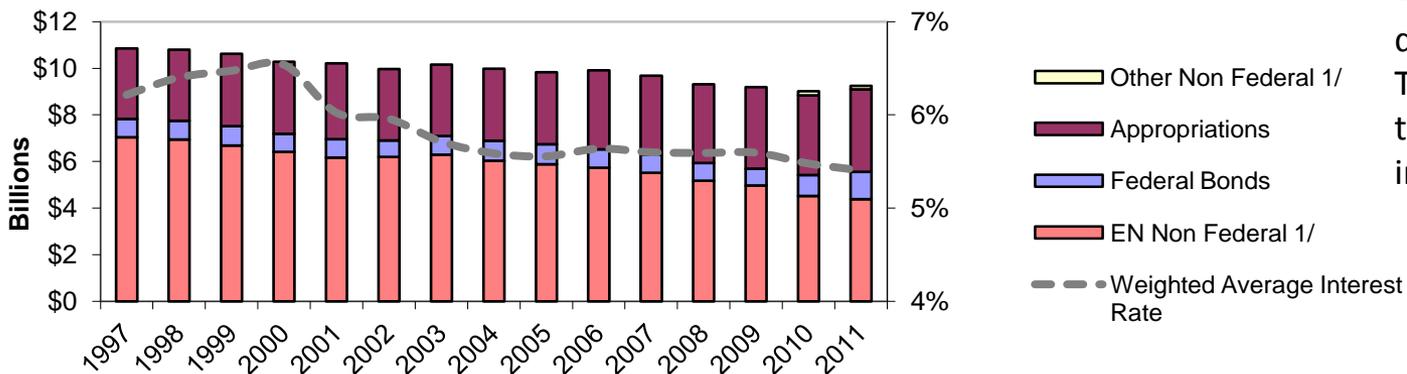
BPA's Outstanding Liabilities Over Time

Transmission Services



- Since 1997 the weighted average interest rate has decreased substantially
- BPA's overall outstanding debt level has remained relatively constant
- Transmission debt is increasing
- Power debt is decreasing
- Power interest has not dropped as much as Transmission primarily due to fixed appropriations interest

Power Services



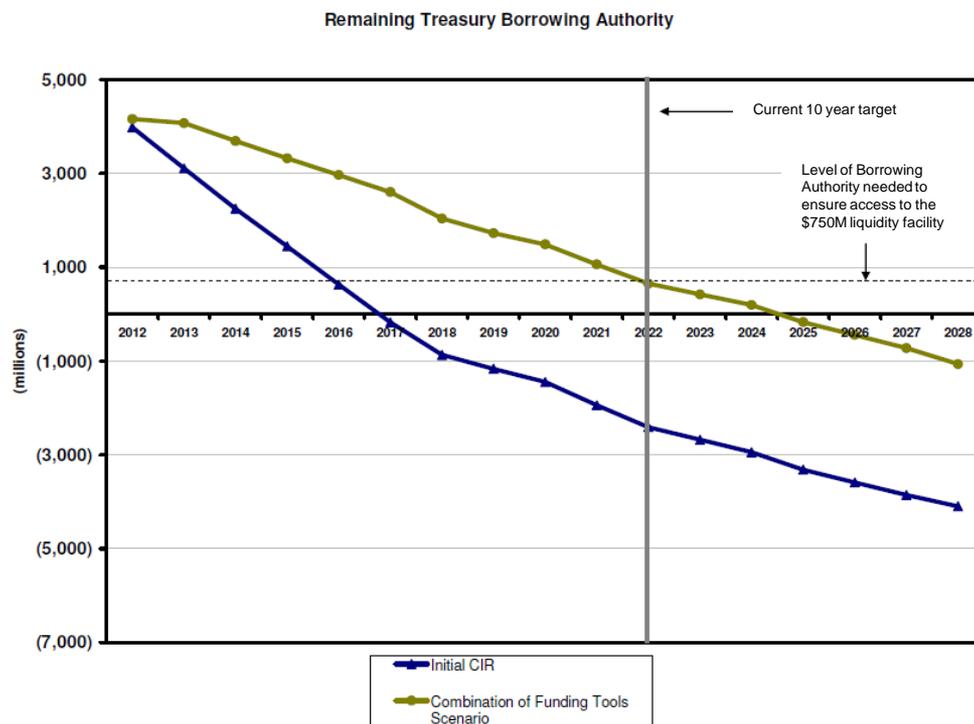
1/ Other Non Federal Projects, including Lease Financing, were included as part of the EN Non Federal Category until 2010

Capital Investment Review, Spring 2012

Potential Impact of Alternatives

- Absent other actions, BPA could run out of US Treasury borrowing authority in FY 2016.
- A scenario was identified in the Capital Investment Review that successfully extended access to US Treasury borrowing authority to the 10-year target using a broad set of financing tools, as follows:

- \$300 million of Transmission cash reserves
- 30% of Transmission's capital program being lease financed
- \$1.7 billion prepayment program for Power
- \$37 million of revenue financing for Power and \$61 million for Transmission in 2022

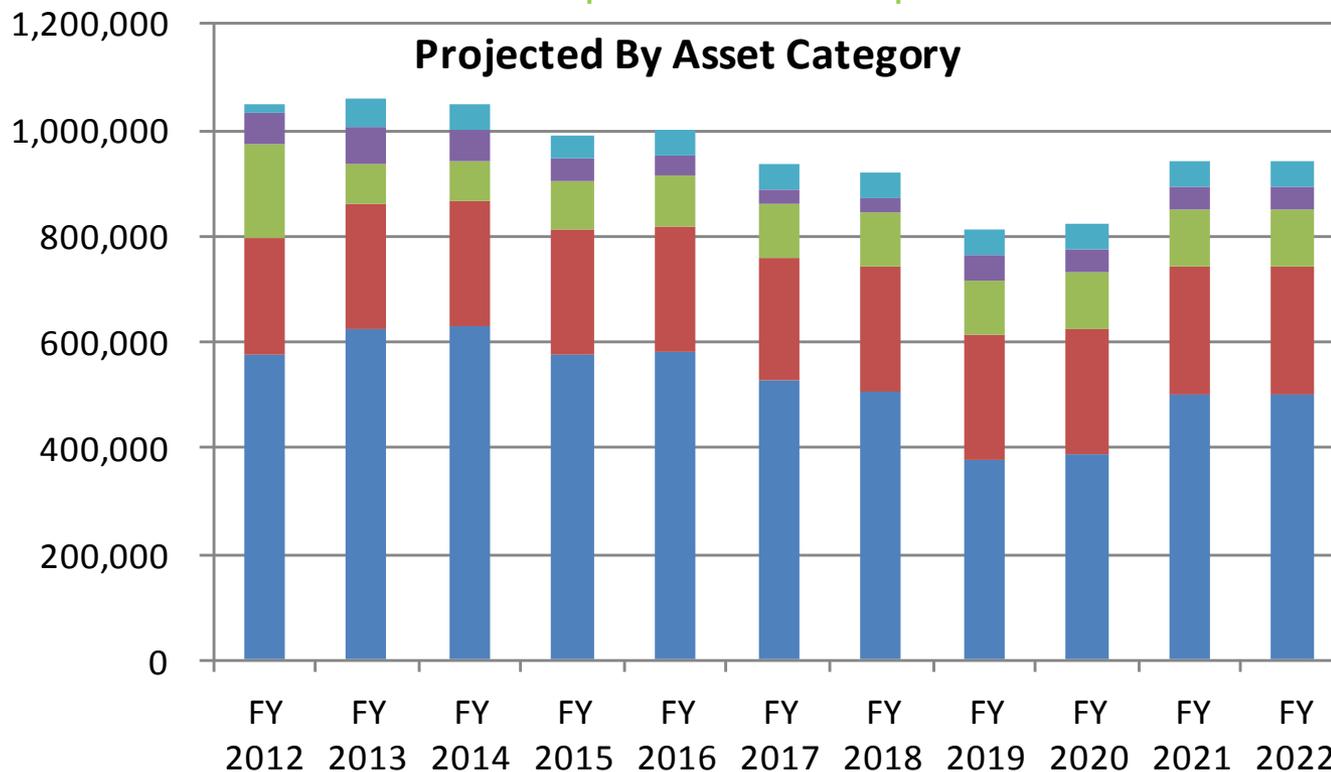


Possible Funding Tools

- Discussed in 2011
 - Prepay: Power only, customers prepay a portion of their current Power Sales Agreement and receive credits over time.
 - Conservation: Power only, a portion of BPA's conservation annual budget could be financed through non-Federal financing.
 - Lease Financing: Transmission only, a third-party entity finances the construction of Transmission assets and leases them to BPA.
 - Cash tools: Both Power and Transmission, includes use of the anticipated accumulation of cash (AAC), reserve and revenue financing.
- Additional Tools
 - Alternate Transmission Financing: Transmission only, BPA could partner with other entities to finance transmission assets through various arrangements.
 - Debt Management Actions similar to Debt Optimization to be coordinated with Energy Northwest

Total Capital Investments

Base Capital with 5% Lapse

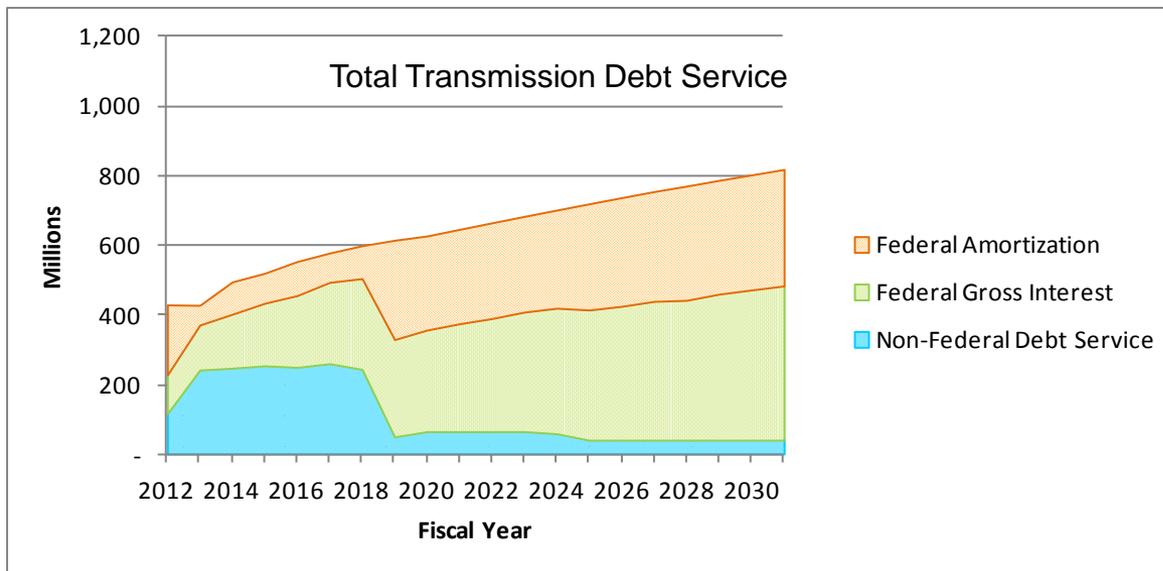
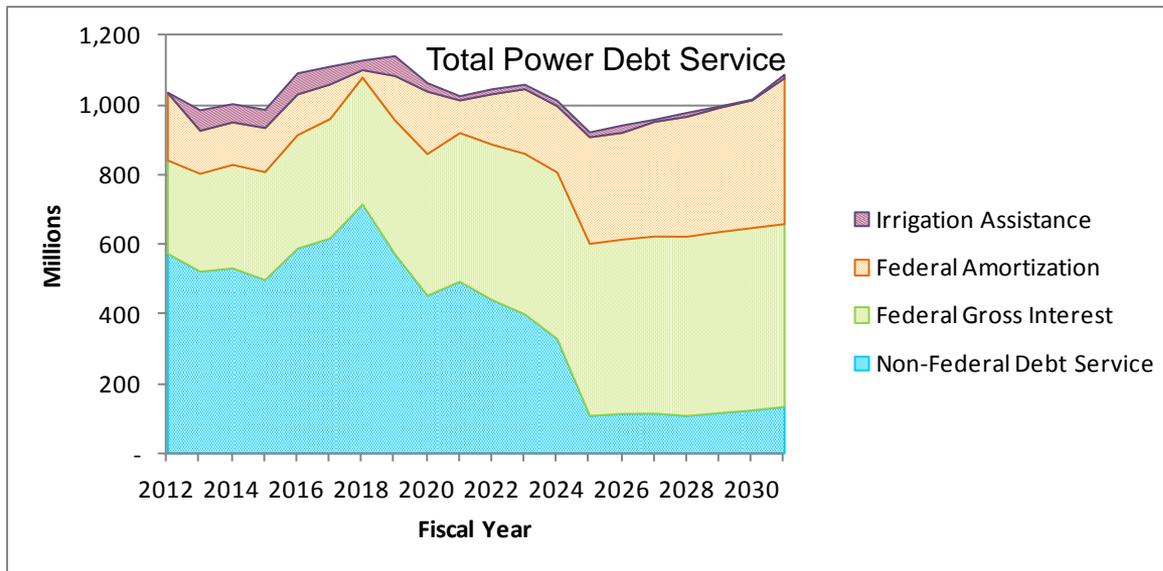


	FY 2012*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total
Transmission	575,500	624,878	629,420	577,454	584,236	528,960	506,239	375,831	385,950	501,506	501,506	5,791,480
Hydro	222,000	235,931	237,312	232,828	235,878	232,074	237,439	238,181	238,914	240,587	240,587	2,591,731
EE	175,000	75,200	75,200	92,000	94,760	97,603	100,531	103,547	106,653	109,853	109,853	1,140,200
Fish and Wildlife	60,000	67,145	60,275	41,807	36,650	30,795	28,646	44,806	45,033	43,599	43,599	502,355
Facilities, IT, Security	17,500	55,813	44,896	45,982	47,067	48,154	47,579	47,837	47,887	47,938	47,938	498,591

*FY 2012 is based on the borrowing plan

Base Case

Debt Service Associated with Forecast Capital Investments



Financing Tool Combinations to Reach the Rolling 10-Year Target

Common Assumptions for the Borrowing Authority Base Case

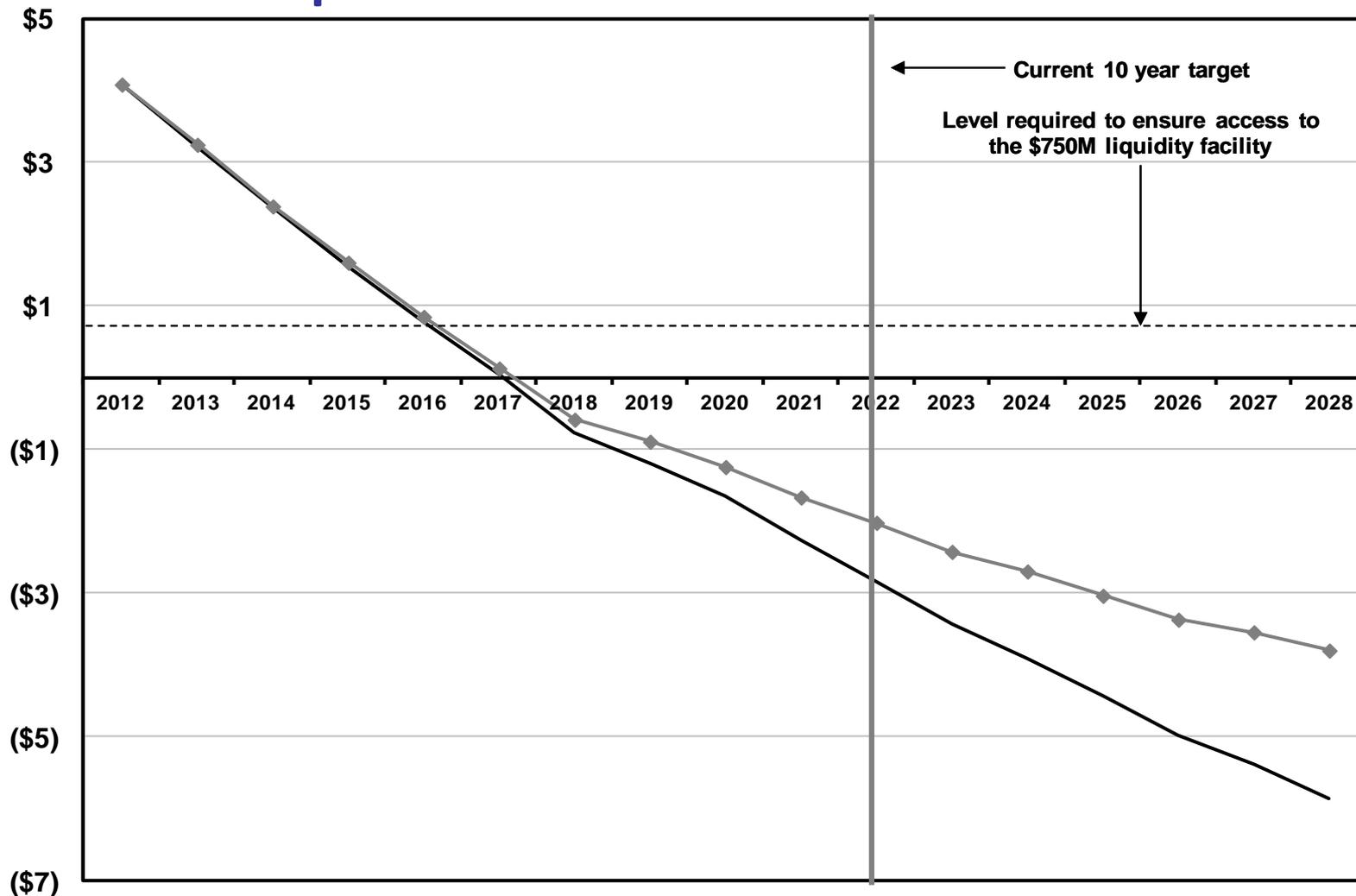
- For purposes of this presentation, the “base case” is more than just the typical updates to the repayment study.
- As noted in the June meeting, updates since the January 2012 Capital in Review (CIR) Base Case include:
 - Power
 - Updated projected borrowing assumptions.
 - Replacements: Updated for June Base capital
 - Updated interest rate forecast
 - Columbia River Fish Mitigation: Updated with the latest Corps forecast of additions to plant/repayment obligations.
 - Cougar Dam: Adjustments (reduction in plant/repayment obligation) for the reclassification of a water intake tower from power to common plant.
 - Energy Northwest Capital: Updated debt service for forecasted CGS Capital requirements.
 - Independent Spent Fuel Storage Installation Settlement: Restricted Proceeds were modeled to call/retire CGS bonds.
 - Energy Northwest and Northern Wasco Refinancings
 - Transmission
 - Updated projected borrowing assumptions
 - Replacements: Updated for the new Depreciation Study survivor curves, plant (actual and forecast) and escalation rates.
 - Updated interest rate forecast
 - Updated Lease Financing: New Lease Financing advances added through May 15, 2012.
- The Borrowing Authority base case also includes Power debt management actions discussed at the June 2012 meeting
 - Depleted Uranium Enrichment Program (DUEP)
 - CGS debt extension for 2014-2015
 - Lewis County debt extension

Borrowing Authority Base Case

- While CGS debt extension is already assumed for 2014-15, BPA plans to work with Energy Northwest to analyze a full extension of CGS debt.
- Full extension of CGS debt will effect the amount of AAC in future years.

Updates to the Base Case

Billions



Combinations to Reach 2022 - Descriptions

	Combination #1	Combination #2	Combination #3	Combination #4
Lease Financing	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013
Prepay	\$1,700 million in prepayment of customer power purchase agreements in 2014-21		\$500 million in prepayment of customer power purchase agreements in 2014-15	\$1,700 million in prepayment of customer power purchase agreements in 2014-21
Conservation	3 rd Party Financing 70% of the Conservation budget beginning in 2015	3 rd Party Financing 70% of the Conservation budget beginning in 2015	3 rd Party Financing 70% of the Conservation budget beginning in 2015	
AAC	Not available	Remaining AAC is used to repay US Treasury debt	Remaining AAC is used to repay US Treasury debt	Not available
Transmission Reserve Financing	\$15 million each year	\$15 million each year	\$15 million each year	\$15 million each year

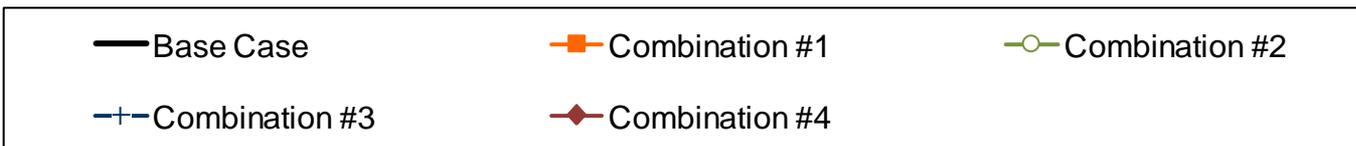
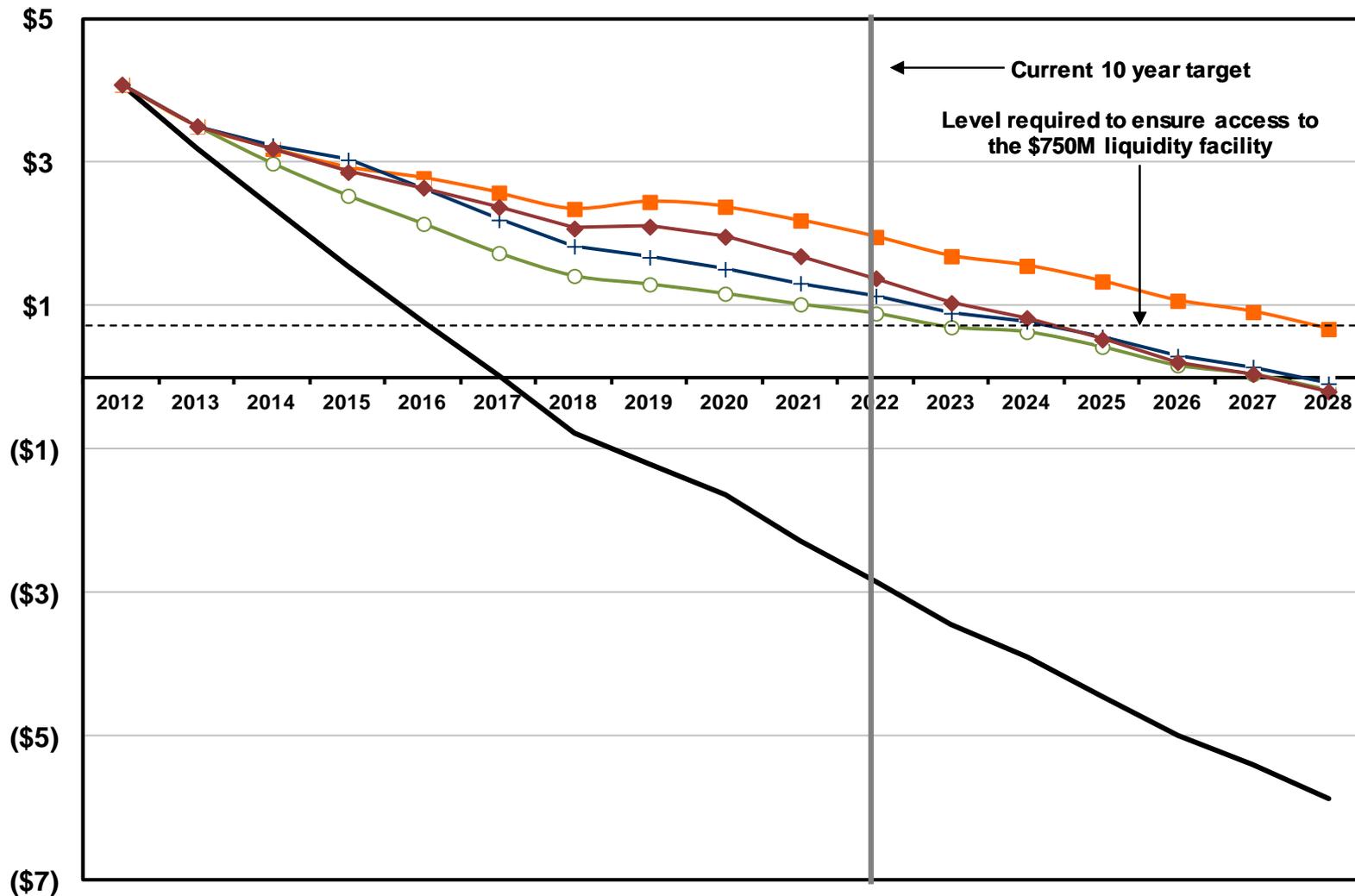
Combinations to Reach 2022 - Summary

(millions)

	Combination # 1	Combination #2	Combination #3	Combination #4
Capital Program	Total FY 2012-22	Total FY 2012-22	Total FY 2012-22	Total FY 2012-22
1 Transmission	(\$5,791)	(\$5,791)	(\$5,791)	(\$5,791)
2 Hydro	(\$2,592)	(\$2,592)	(\$2,592)	(\$2,592)
3 EE	(\$1,140)	(\$1,140)	(\$1,140)	(\$1,140)
4 Fish and Wildlife	(\$502)	(\$502)	(\$502)	(\$502)
5 Facilities, IT, Security	(\$499)	(\$499)	(\$499)	(\$499)
6 Total Capital	(\$10,524)	(\$10,524)	(\$10,524)	(\$10,524)
US Treasury borrowing authority				
7 Available Borrowing Authority (9/30/2011)	\$4,757	\$4,757	\$4,757	\$4,757
8 Treasury amortization	\$2,788	\$2,905	\$2,910	\$2,784
9 Total BPA US Treasury borrowing authority	\$7,545	\$7,662	\$7,667	\$7,541
Access to Capital Tools				
10 Transmission Reserve Financing (\$15m/year)	\$165	\$165	\$165	\$165
11 50% Lease Financing	\$2,508	\$2,508	\$2,508	\$2,508
12 Prepay	\$1,700		\$500	\$1,700
13 70% Conservation	\$570	\$570	\$570	
14 Total Tools	\$4,943	\$3,243	\$3,743	\$4,373
15 AAC		\$517	\$258	
16 Total Remaining Capacity	\$1,964	\$898	\$1,144	\$1,390

Combinations to Reach 2022

Billions



Rate Effects

Power Rate Effects	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Combination # 1	50% LF, \$1.7b prepay, 70% Conservation financing						
Change from Base Case	0.0%	2.7%	0.5%	0.2%	0.4%	2.6%	3.8%
Combination # 2	50% LF, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.0%	(0.6%)	(1.0%)	(1.7%)	(2.3%)	(1.9%)
Combination # 3	50% LF, \$500m prepay, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.6%	(0.3%)	(0.3%)	(0.5%)	0.4%	1.4%
Combination # 4	50% LF, \$1.7b prepay						
Change from Base Case	0.0%	2.6%	0.5%	0.2%	0.3%	2.5%	3.6%

Transmission Rate Effects*	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Change from Base Case	2.6%	3.7%	4.1%	4.0%	3.9%	2.9%	3.8%

*The same 50% Lease Financing scenario was used in all combinations.

Changes Since the Initial CIR

- In this presentation there are more scenarios that meet the 10-year target than seen in the March CIR presentation.
- A few things have changed since that time that may allow us to reach the 10-year target
 - Lease Financing assumptions were increased after customer feedback from 30% to 50%.
 - Conservation Financing assumptions were increased from 50% to 70% but begin in Fiscal year 2015 instead of 2013.
 - We changed the way we treat the repayment study's schedule of appropriations repayment. Instead of accepting the study's schedule of repayment, we assumed that appropriations were only paid when due. This resulted in an increase to borrowing authority of ~\$400 million in combination #1.
 - In the various scenarios, if there was AAC still available, it was scheduled to reduce capital expenditures.

Financing Tools

Individual Tools

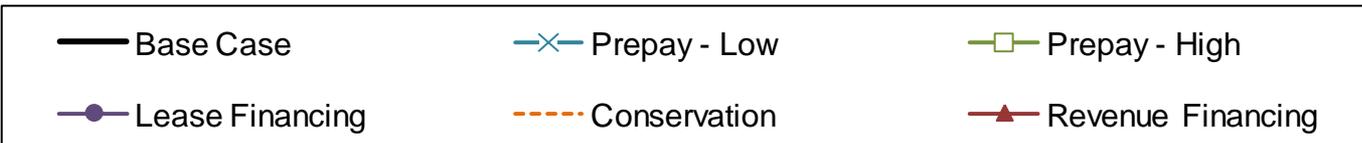
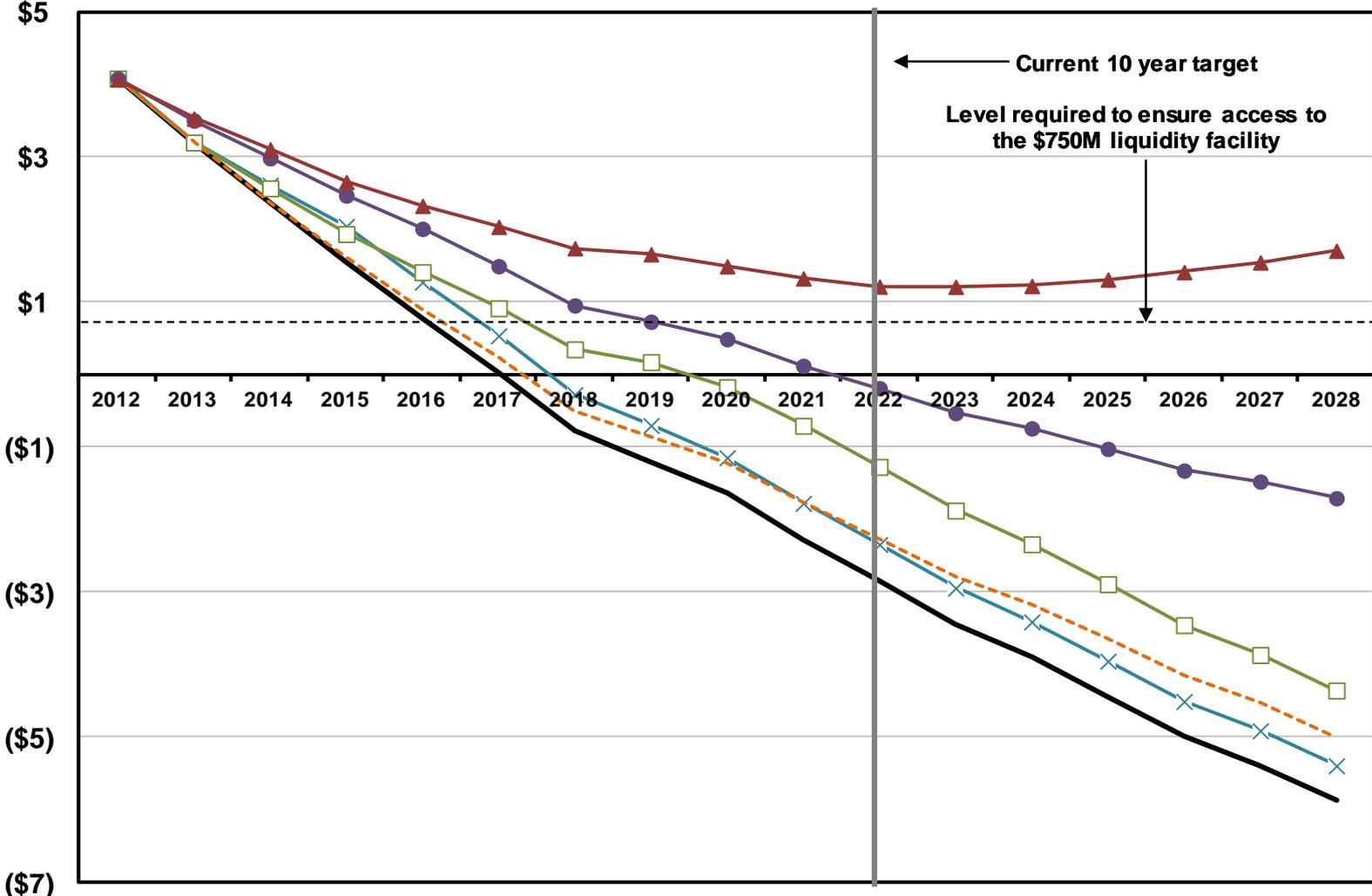
	Lease Financing	Prepay - high	Prepay - low	Conservation	Revenue Financing
Description*	50% of Transmission's capital program is third-party financed	Customer prepayment of a portion of their Power Sales Agreement 2014-21	Customer prepayment of a portion of their Power Sales Agreement 2014-15	70% of the Conservation budget is third-party financed starting in 2015	No greater than a 2% Power and 5% Transmission rate impact. Includes 50% Lease Financing.
Program Size	\$2,508 million	\$1,700 million	\$500 million	\$570 million	\$844 million: Power: \$417 Transmission: \$427
Business Line	Transmission	Power	Power	Power	Both
Risks	<ul style="list-style-type: none"> •Access to lines of credit •BPA internal infrastructure restrictions 	<ul style="list-style-type: none"> •Initial Execution •Program sustainability •Market risk •Customer Participation 	<ul style="list-style-type: none"> •Initial Execution •Program sustainability •Market risk •Customer Participation 	<ul style="list-style-type: none"> •Need a third-party issuer •Modification of current contracts 	<ul style="list-style-type: none"> •Higher initial cost •Challenge to achieve
Advantages	<ul style="list-style-type: none"> •Tested and used tool •Can be increased over time 	<ul style="list-style-type: none"> •Currently have regional momentum •Provides new access to capital financing tool. 	<ul style="list-style-type: none"> •Currently have regional momentum •Provides new access to capital financing tool. 	<ul style="list-style-type: none"> •Feasible, cost-effective tool •Successfully used in the mid 90's 	Tested and used tool
Costs Compared to US Agency Rate	Currently 100 bps higher	Tax-exempt - 75 bps higher** Taxable – 140 bps higher**	Tax-exempt - 75 bps higher** Taxable – 140 bps higher**	7 year taxable: 100-125 bps higher 7 year tax-exempt: 10-35 bps higher	Higher initial cost but lower over time

*All scenarios include base case assumptions

**Dependent on customer incentive

Individual Tools

Billions



Individual Tools Rate Effects

	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
50% Lease Financing							
Change from Trans Base Case	2.6%	3.7%	4.1%	4.0%	3.9%	2.9%	3.8%
Prepay - High							
Change from Power Base Case	0.0%	2.6%	0.5%	0.2%	0.3%	2.5%	3.6%
Prepay - low							
Change from Power Base Case	0.0%	0.5%	(0.3%)	(0.2%)	(0.3%)	0.6%	1.6%
Conservation							
Change from Power Base Case	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.5%
Revenue Financing							
Change from Trans Base Case	5.4%	6.4%	6.6%	6.4%	6.2%	6.1%	5.9%
Change from Trans 50% LF	2.7%	2.5%	2.4%	2.3%	2.2%	2.1%	2.0%
Change from Power Base Case	1.5%	1.4%	1.3%	1.3%	1.3%	1.3%	1.4%

Lease Financing Funding Levels

- BPA has set a goal to lease finance at least 50% of the Transmission capital program starting in Fiscal year 2013. Stakeholders have asked why the target isn't higher.
- The executive sponsors of the Lease Financing Program have directed that all eligible Transmission projects be lease financed. There are constraints to lease financing:
 - Can only be used for long-lived Transmission assets
 - Excludes assets in Montana at this time
 - Construction can not rely on BPA inventory beyond set limits
 - Land, access roads, and retirements are not eligible
 - Inventory may not be lease financed
 - Assets must be taggable (and tagged)
- 50% is a stretch goal - BPA may be able to reach a higher percentage in the future. For planning purposes, 50% is the portion BPA is comfortable planning to lease finance given the constraints.
- For Fiscal year 2012, BPA is forecasting to lease finance 38% of Transmission's capital program.

Alternate Transmission Financing

- In addition to lease financing, BPA has been considering several opportunities to finance Transmission assets through various agreements with customers.
- Ideas being proposed are:
 - Prepay for capacity / capacity ownership (3rd AC model or variation)
 - Segmented physical ownership - this would preserve BPA's ability to lease finance the segment of the project BPA would eventually own
 - Jointly owned facilities - this could require an ownership committee and could significantly complicate and possibly preclude BPA's ability to lease finance the project
 - Pre-paid transmission service
 - Customer built lines where BPA purchases capacity

Anticipated Accumulation of Cash

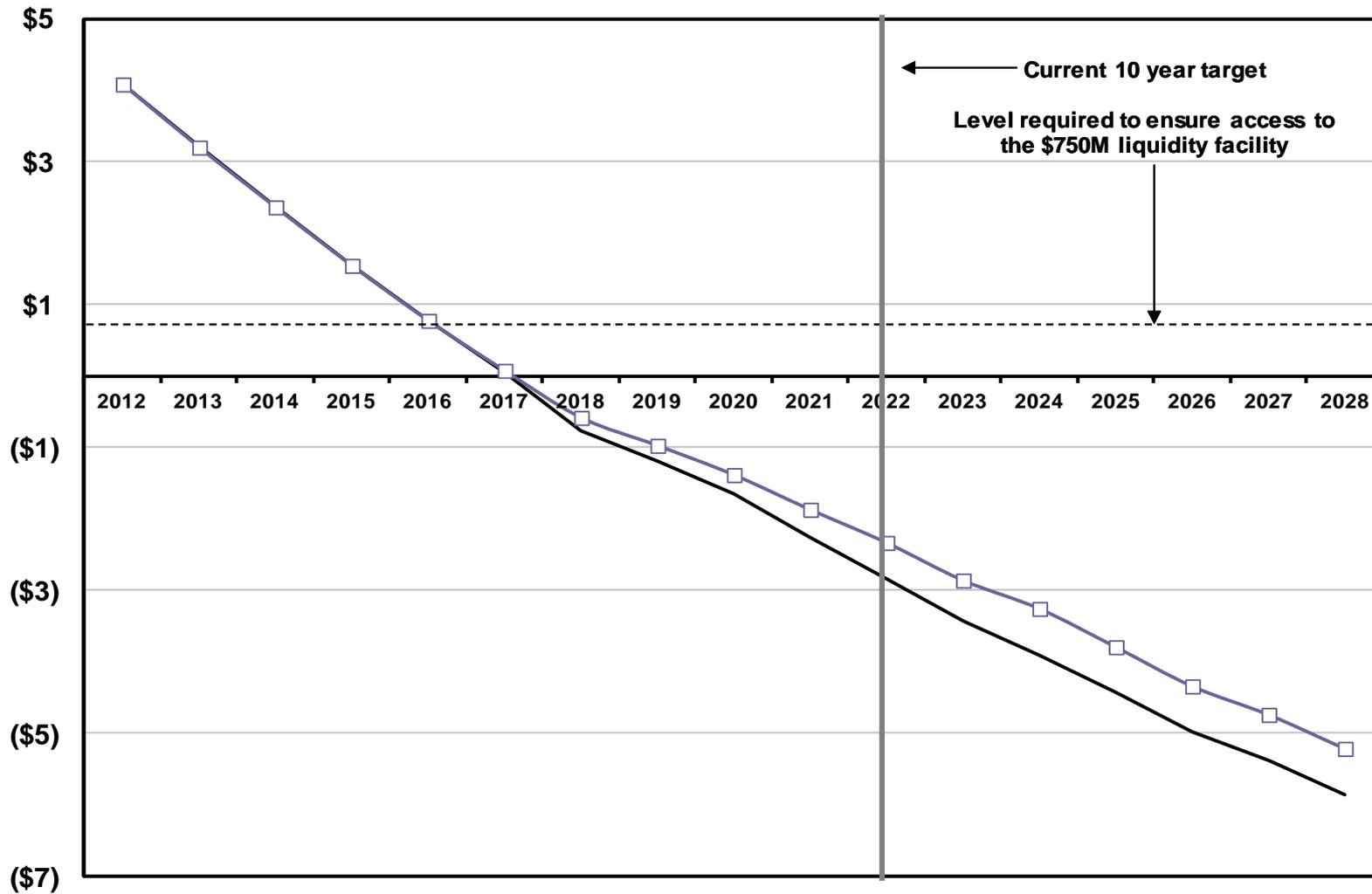
Summary of the AAC

- Since the 1987 general rate case, BPA policy has been to determine revenue requirements based on total accrued expenses (income statement). When this is inadequate to cover cash requirements, Minimum Required Net Revenue are added to the expenses to provide sufficient cash flows.
- Current forecasts show Power Services revenue requirements could accumulate significant cash in the 2016-2024 period.
- This period is when most Energy Northwest debt is scheduled to be repaid, which means that the Federal amortization payments scheduled for Power will be relatively lower than in subsequent years.
- The potential difference between non-cash elements and cash requirements (the AAC) was \$1.1 billion in last fall's presentations.
- Current forecast under the base case is \$665 million, between Fiscal years 2016-24.

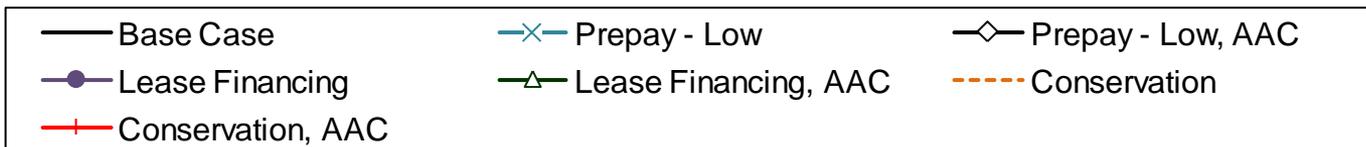
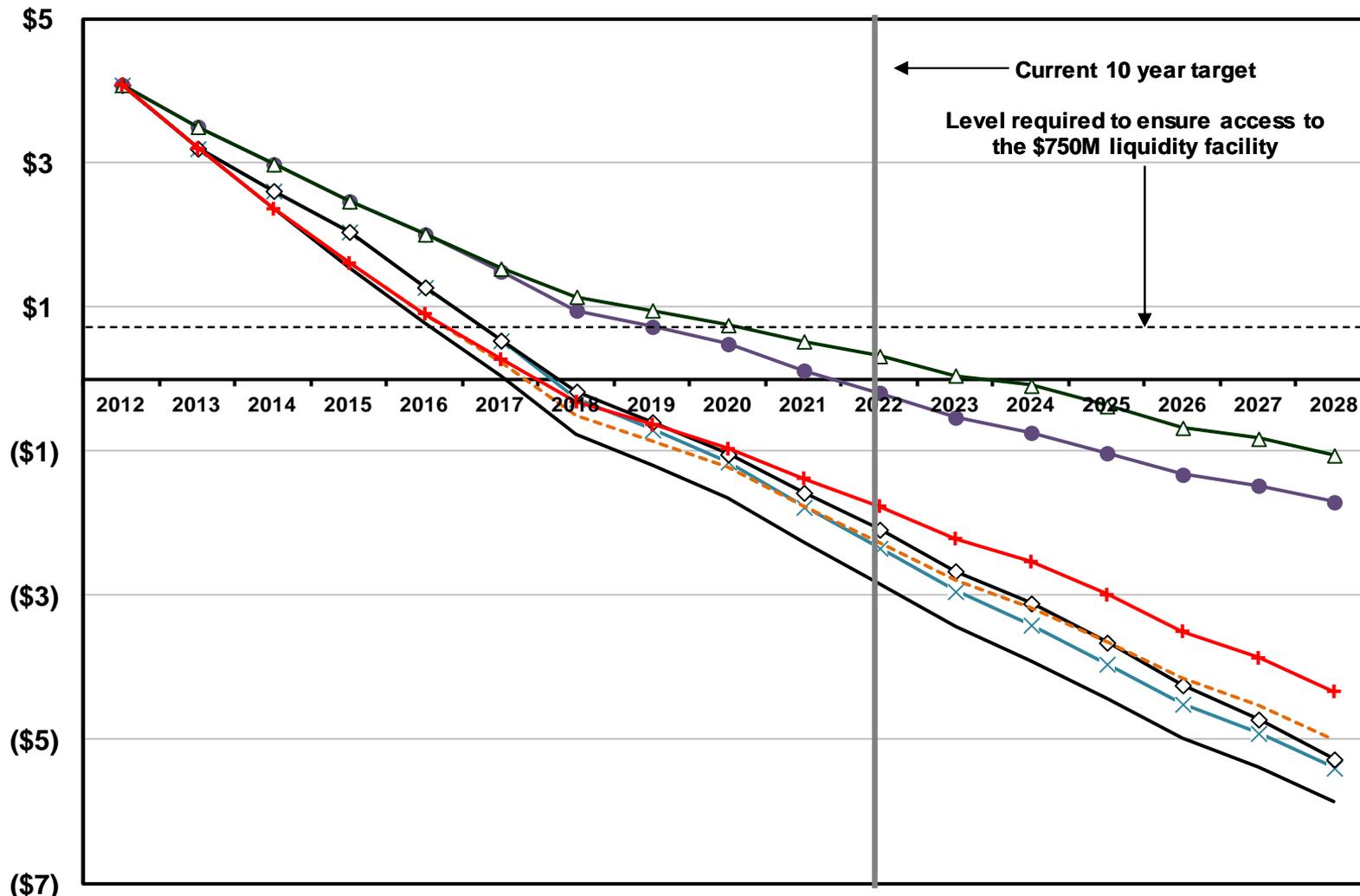
What happened to the AAC

- In 2014-15
 - The presence of the AAC is highly sensitive to both repayment study results and the forecasts of depreciation and amortization (particularly related to short-lived investments.)
 - As discussed in the debt management workshop, extending CGS debt maturing in 2014-2015 caused the repayment study to schedule significantly higher Federal amortization in the coming rate period. This almost completely eliminated the AAC in that period, reducing it to \$9 million in 2015.
 - Given the results of the repayment study, for purposes of these scenarios, we chose to increase Federal amortization in that year by \$9 million to eliminate the AAC and to ensure equitable treatment of Slice and non-Slice customers.
- In 2016-24
 - For every tool that resulted in AAC, we produced a corresponding scenario in which the cash flows were used to reduce borrowing in that year by applying the cash to fund capital investments.

Billions Base Case: with and without AAC



Billions Individual Tools with and without the AAC



Rate Effects of Individual Tools Combined with the AAC

	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Lease Financing, AAC							
Change from Trans Base Case	2.6%	3.7%	4.1%	4.0%	3.9%	3.9%	3.8%
Prepay – low, AAC							
Change from Power Base Case	0.0%	0.5%	(0.4%)	(0.3%)	(0.6%)	0.3%	1.2%
Conservation, AAC							
Change from Power Base Case	0.0%	0.0%	(0.6%)	(1.0%)	(1.7%)	(2.3%)	(1.9%)

Combinations

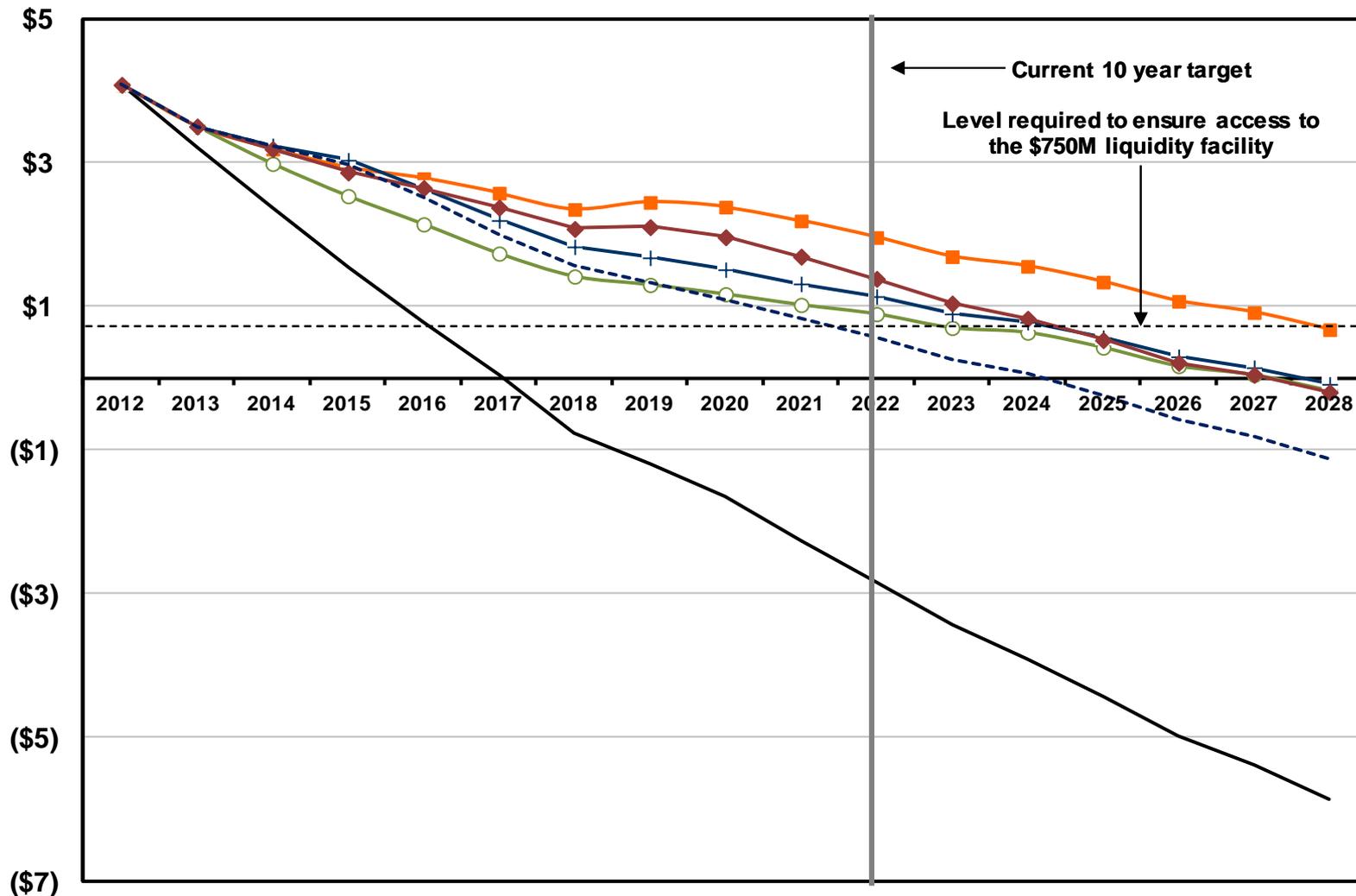
	Combination #1	Combination #2	Combination #3	Combination #4	Combination #5
Lease Financing	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013	Lease Financing 50% of Transmission's capital program beginning in 2013
Prepay	High - \$1,700 million in prepayment of customer power purchase agreements in 2014-21		Low - \$500 million in prepayment of customer power purchase agreements in 2014-15	High - \$1,700 million in prepayment of customer power purchase agreements in 2014-21	Low - \$500 million of prepayment of customer power purchase agreements in 2014-15
Conservation	70% of the Conservation budget beginning in 2015	70% of the Conservation budget beginning in 2015	70% of the Conservation budget beginning in 2015		
AAC	Not available	Remaining AAC is used to repay US Treasury debt	Remaining AAC is used to repay US Treasury debt	Not available	Remaining AAC is used to repay US Treasury debt
Reaches the Target?	Yes	Yes	Yes	Yes	No

Combinations

(millions)	Combination # 1	Combination #2	Combination #3	Combination #4	Combination #5
Capital Program	Total FY 2012-22				
1 Transmission	(\$5,791)	(\$5,791)	(\$5,791)	(\$5,791)	(\$5,791)
2 Hydro	(\$2,592)	(\$2,592)	(\$2,592)	(\$2,592)	(\$2,592)
3 EE	(\$1,140)	(\$1,140)	(\$1,140)	(\$1,140)	(\$1,140)
4 Fish and Wildlife	(\$502)	(\$502)	(\$502)	(\$502)	(\$502)
5 Facilities, IT, Security	(\$499)	(\$499)	(\$499)	(\$499)	(\$499)
6 Total Capital	(\$10,524)	(\$10,524)	(\$10,524)	(\$10,524)	(\$10,524)
US Treasury borrowing authority					
7 Available Borrowing Authority (9/30/2011)	\$4,757	\$4,757	\$4,757	\$4,757	\$4,757
8 Treasury amortization	\$2,788	\$2,905	\$2,910	\$2,784	\$2,910
9 Total BPA US Treasury borrowing authority	\$7,545	\$7,662	\$7,667	\$7,541	\$7,667
Access to Capital Tools					
10 Transmission Reserve Financing (\$15m/year)	\$165	\$165	\$165	\$165	\$165
11 50% Lease Financing	\$2,508	\$2,508	\$2,508	\$2,508	\$2,508
12 Prepay	\$1,700		\$500	\$1,700	\$500
13 70% Conservation	\$570	\$570	\$570		
14 Total Tools	\$4,943	\$3,243	\$3,743	\$4,373	\$3,173
15 AAC		\$517	\$258		\$260
16 Total Remaining Capacity	\$1,964	\$898	\$1,144	\$1,390	\$576

Combinations

Billions



Rate Effects

Power Rate Effects	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Combination # 1	50% LF, \$1.7b prepay, 70% Conservation financing						
Change from Base Case	0.0%	2.7%	0.5%	0.2%	0.4%	2.6%	3.8%
Combination # 2	50% LF, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.0%	(0.6%)	(1.0%)	(1.7%)	(2.3%)	(1.9%)
Combination # 3	50% LF, \$500m prepay, 70% Conservation financing, Use AAC						
Change from Base Case	0.0%	0.6%	(0.3%)	(0.3%)	(0.5%)	0.4%	1.4%
Combination # 4	50% LF, \$1.7b prepay						
Change from Base Case	0.0%	2.6%	0.5%	0.2%	0.3%	2.5%	3.7%
Combination # 5	50% LF, \$500m prepay, Use AAC						
Change from Base Case	0.0%	0.5%	(0.4%)	(0.3%)	(0.6%)	0.3%	1.2%

Transmission Rate Effects*	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25	2026/27
Change from Base Case	2.6%	3.7%	4.1%	4.0%	3.9%	2.9%	3.8%

*The same 50% Lease Financing scenario was the same in all combinations.

Power Prepay Update

- BPA and two customers held conversations with the all three rating agencies
 - FitchRatings: July 17th
 - Moody Investor Service: July 23rd
 - Standard and Poor's: July 23rd

- BPA is on target to release the Request for Offer on August 6th with responses due November 30th

- BPA has had input that the credit markets like the prepay program and customers should be able to find funding through public offerings or private placements

Debt Optimization Two

WNP-1 and WNP-3 Debt Extension

- Another way to preserve borrowing authority would be to extend maturing debt for EN's WNP-1 and -3 to their maximum maturity of 2028.
- If this program were to be implemented, it would be used to restore borrowing authority in a given year to a predetermined amount to achieve the 10-year target.
- BPA will evaluate existing CGS debt differently than Projects 1 and 3 debt given CGS license extension, and will consider it in light of ratepayer equity over the long-term. CGS debt extension will not be included within the context of a new debt optimization program, but will be analyzed separately.
- BPA does not intend to pursue this until there is a better understanding of the success of the power prepayment program.
- Executive management at BPA has serious reservations about this possibility.

Options if the Prepay Program is not Fully Subscribed

- Should the prepayment program not be fully subscribed in a given rate period, the following options are available.
- For example, if BPA is seeking \$500 million of prepayment subscription, but only receives \$400 million, these alternatives could be used to obtain the other \$100 million.
- In this example, BPA could:
 - Increase reliance on conservation financing
 - Revenue finance by \$100 million
 - Reduce or delay \$100 million of the capital program that can only be financed with borrowing authority
 - Or some combination of the above

Capital Project Prioritization

- BPA is in the process of developing a methodology for prioritizing capital projects.
- A workshop will be held in August/September to share the proposed framework.
- A more fully developed methodology will be shared early in 2013.

Capital Program Modifications

- Another action that can be taken to ensure sufficient access to capital is to reduce planned capital investment.
- During the current IPR process, participants may provide input on program level forecasts and the assumptions supporting those forecasts.
- The Access to Capital Plan that will be developed by the end of the Fiscal year will include consideration of reductions to capital, and any participant comments received will be considered as that plan is developed.

Summary

- BPA has multiple financing tools it can utilize as part of its total access to capital.
- These tools, when combined, help BPA maintain the availability of US Treasury borrowing authority on a rolling 10-year basis.
- BPA would appreciate comments on the use of the various tools and cost framework.
- Reductions to planned capital investments are another component of ensuring Access to Capital.
- BPA will be drafting an access to capital plan to resolve this critical challenge. This plan will be influenced by the comments received.
- BPA will offer a power prepayment program.
- BPA is planning to establish third-party conservation financing beginning in Fiscal Year 2015.
- BPA will continue to aggressively pursue lease financing opportunities.

Non-Routine Extraordinary Maintenance (NREX)

- What is NREX?
 - Necessary work required for safe, reliable, operation and maintenance of Corps and Reclamation dams
 - Upcoming work is mostly associated with unit reliability, water control, cranes and dam infrastructure (some of which are joint items that require matching appropriations)
 - NREX for FY 2014-15 include the following:
 - Grand Coulee Third Powerplant overhaul,
 - Minidoka generator 8 and 9 overhaul and
 - turbine cavitation repairs, rings seal gate overhauls, bulkhead gate rehabilitation, discharge tube and draft tube rehabilitation, turbine guide bearings, fire protection and life safety requirements and other equipment and maintenance/repairs

NREX Spending Levels

(Millions of Dollars)

<i>Reclamation</i>	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
GC-TPP Overhaul	\$ 17	\$ 21	\$ 27	\$ 25	\$ 27	\$ 24	\$ 31	\$ 31	\$ 203
GC - Other Non-Routine	7	7	14	16	14	18	11	11	98
Other PP - Non Routine	2	2	4	5	4	2	4	4	27
<i>Corps</i>									
Corps Non-Routine	18	18	18	18	18	18	18	18	144
Total	\$ 44	\$ 48	\$ 63	\$ 64	\$ 63	\$ 62	\$ 64	\$ 64	\$ 472

Capital vs. Expense Accounting Treatment and Financing

- This issue was discussed during the FY 2010 IPR workshop. Key points from that discussion:
 - Corps and Reclamation have determined NREX to be expense per their respective capitalization policies
 - BPA researched accounting treatment for NREX at other utilities and PMAs and in general, the research has shown that NREX is consistently expensed except for isolated cases when treated as regulatory asset

Next Steps

- If you need clarification or further information related to these Access to Capital workshop materials, please email requests to BPAFinance@bpa.gov
- Participants have an opportunity to submit comments on BPA's Initial IPR Publication and proposed IPR levels during a ten week public comment period beginning June 5, 2012 and concluding August 10, 2012. Comments can be submitted online; by email; or by mail to: BPA, P.O. Box 14428, Portland, OR 97293-4428.
 - Please send questions to: BPAFinance@BPA.gov

Integrated Program Review

Financial Disclosure

This information has been made publicly available by BPA on July 24, 2012 and contains information not reported in agency financial statements.

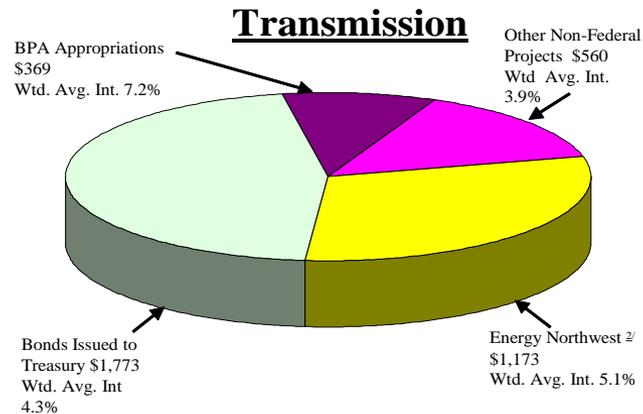
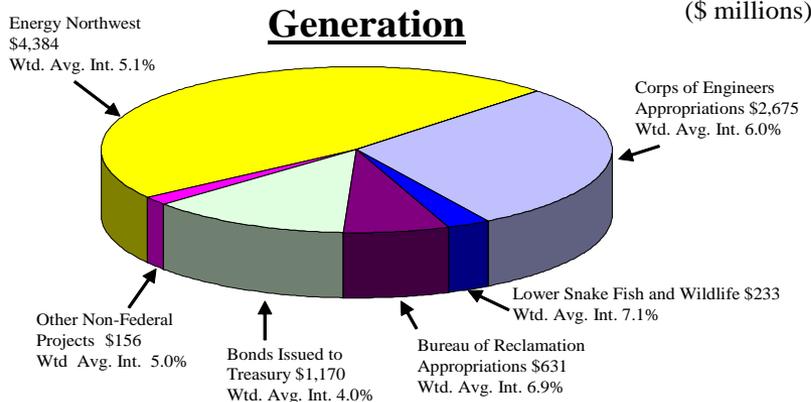
Appendix



A Look at the Total Portfolio:

BPA's Outstanding Liabilities

Federal Columbia River Power System (FCRPS) Total Liabilities to Federal and Non Federal Parties as of 9/30/2011



\$ millions	Generation		Transmission		Total	
	Liabilities Outstanding	WAI Rate	Liabilities Outstanding	WAI Rate	Liabilities Outstanding	WAI Rate
Total Appropriations ^{1/}	\$3,539	6.2	\$369	7.2	\$3,908	6.3
Total Bonds Issued to Treasury	1,170	4.0	1,773	4.4	2,943	4.2
Total Federal Liabilities	\$4,709	5.7	\$2,142	4.9	\$6,851	5.4
BPA Liabilities to Energy Northwest	\$4,384	5.1	\$1,173 ^{2/}	5.1	\$5,557	5.1
BPA Liabilities to Other Non Federal Parties	156	5.0	560	3.9	716	4.2
Total Non Federal Liabilities	\$4,540	5.1	\$1,732	4.7	\$6,273	5.0
Total FCRPS Liabilities	\$9,250	5.4	\$3,874	4.8	\$13,124	5.2

1/ Federal Appropriation amounts are less than the amount per the FCRPS financial statements because the repayment obligation doesn't begin until the related assets are placed in service. Appropriation amounts exclude appropriations for construction work still in progress (CWIP), which was \$217 million in FY 2011. Unspent appropriations received by the COE and BOR as well as some adjustments are also excluded.

2/ Transmission Services (TS) principal is different from the Non-Federal repayment obligation due to: 1) premium bonds issued, 2) timing differences, and 3) transactions costs. TS is assigned the repayment obligation for these items, which equals the additional Federal prepayment made on TS' behalf.

NOTE: This data does not include irrigation assistance liability of \$706 million at zero percent interest.

Capital Related Revenue Requirement Components

Base Case

Power Access to Capital Base Case

(\$thousands)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1 Non-Federal Debt Service	514,368	439,667	564,056	571,607	562,810	355,181	401,175	380,003	390,697	399,704	328,474	107,644	113,388	114,134	107,504
2 Depreciation/Amortization	223,068	227,388	227,242	240,476	254,803	269,417	284,343	298,040	311,344	319,056	319,440	323,795	328,166	332,542	336,477
3 Federal Net Interest 1/	239,565	251,522	263,947	275,804	292,051	310,360	332,222	349,209	364,661	376,153	391,378	407,001	413,460	421,652	427,703
4 MRNR	-	-	-	-	-	-	-	-	-	-	-	40,616	43,862	47,337	63,651
5 Total Revenue Requirement	977,001	918,578	1,055,245	1,087,886	1,109,663	934,958	1,017,740	1,027,252	1,066,702	1,094,913	1,039,293	879,056	898,877	915,665	935,335
6 Cash Flow (AAC)	63	30	636	40,755	156,279	35,437	35,196	146,658	106,539	75,151	68,599	0	0	0	0

Transmission Access to Capital Base Case

(\$thousands)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1 Depreciation/Amortization	193,164	205,086	220,925	235,756	237,074	249,125	252,879	256,615	260,331	264,030	267,710	271,371	275,014	278,639	282,246
2 Interest Expense															
3 DSR Interest	45,419	38,163	30,380	22,457	13,780	5,128	4,881	3,945	2,961	1,928	844				
4 Non-Federal Interest	48,756	54,232	56,820	59,265	58,727	59,614	58,434	56,638	54,247	52,142	51,117	50,420	49,772	48,954	47,858
5 Federal Net Interest	99,284	119,546	149,608	183,163	211,194	236,296	249,120	267,539	282,892	301,814	319,425	333,381	344,492	358,967	362,425
6 MRNR	119,446	117,516	116,764	105,594	100,968	101,269	95,840	91,673	91,885	80,939	70,857	65,812	69,797	78,152	79,578
7 Total Revenue Requirement	506,070	534,542	574,497	606,235	621,742	651,433	661,154	676,409	692,316	700,853	709,953	720,983	739,075	764,713	772,107
8 Cash Flow (AAC)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Capital Related Revenue Requirement Components

Transmission

(\$thousands)	Changes From Base														
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
50% Lease Financing															
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense															
DSR Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Federal Interest	27,275	47,570	67,770	87,379	105,691	121,449	134,924	149,934	167,073	184,561	202,049	219,538	237,026	254,514	272,002
Federal Net Interest	(21,501)	(37,474)	(54,771)	(72,242)	(86,124)	(98,838)	(110,265)	(123,531)	(138,520)	(153,277)	(167,758)	(182,483)	(196,423)	(210,782)	(225,465)
MRNR	13,842	25,076	28,050	28,422	26,319	23,732	21,790	20,473	18,659	16,285	13,678	11,366	8,326	5,636	4,789
<i>Total Revenue Requirement</i>	<i>19,616</i>	<i>35,172</i>	<i>41,049</i>	<i>43,558</i>	<i>45,885</i>	<i>46,344</i>	<i>46,449</i>	<i>46,876</i>	<i>47,212</i>	<i>47,569</i>	<i>47,969</i>	<i>48,420</i>	<i>48,929</i>	<i>49,368</i>	<i>51,326</i>
Revenue Financing															
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense															
DSR Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Federal Interest	27,275	47,570	67,770	87,379	105,691	121,449	134,924	149,934	167,073	184,561	202,049	219,538	237,026	254,514	272,002
Federal Net Interest	(22,257)	(39,818)	(58,924)	(79,931)	(97,954)	(113,106)	(127,105)	(143,094)	(160,938)	(178,618)	(197,175)	(215,796)	(231,739)	(249,925)	(266,372)
MRNR	44,576	57,376	62,140	66,100	67,750	67,501	68,130	69,369	70,222	70,519	71,708	72,994	72,009	72,903	73,446
<i>Total Revenue Requirement</i>	<i>49,594</i>	<i>65,128</i>	<i>70,986</i>	<i>73,548</i>	<i>75,487</i>	<i>75,844</i>	<i>75,949</i>	<i>76,209</i>	<i>76,357</i>	<i>76,462</i>	<i>76,582</i>	<i>76,736</i>	<i>77,296</i>	<i>77,492</i>	<i>79,076</i>
Transmission Revenue Financing Amounts	31,452	33,237	35,162	92,888	42,370	44,508	46,801	49,279	51,635	54,345	57,253	60,273	63,353	66,483	69,887

Capital Related Revenue Requirement Components

Power

(\$thousands)	Changes From Base														
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Prepay - high															
Non-Federal Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(5,334)	(14,001)	(23,886)	(36,877)	(47,380)	(58,091)	(66,941)	(69,582)	(68,093)	(65,064)	(62,664)	(61,265)	(60,158)	(59,007)	(58,003)
MRNR 1/	4,937	16,382	97,245	85,854	0	127,872	129,209	15,002	57,861	89,254	95,802	149,035	147,391	150,173	150,000
<i>Total Revenue Requirement</i>	<i>(397)</i>	<i>2,381</i>	<i>73,359</i>	<i>48,977</i>	<i>(47,380)</i>	<i>69,781</i>	<i>62,267</i>	<i>(54,581)</i>	<i>(10,232)</i>	<i>24,190</i>	<i>33,139</i>	<i>87,770</i>	<i>87,233</i>	<i>91,166</i>	<i>91,997</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(155,391)	(35,437)	(35,196)	(146,658)	(106,539)	(75,151)	(68,599)	0	0	0	0
Prepay - low															
Non-Federal Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(5,622)	(15,460)	(19,449)	(18,730)	(17,214)	(15,787)	(14,608)	(13,185)	(11,515)	(9,845)	(8,175)	(7,224)	(6,720)	(6,204)	(5,710)
MRNR 1/	4,937	14,970	49,364	9,244	0	14,563	14,805	0	0	0	0	42,927	42,567	42,928	43,183
<i>Total Revenue Requirement</i>	<i>(685)</i>	<i>(490)</i>	<i>29,914</i>	<i>(9,486)</i>	<i>(17,214)</i>	<i>(1,224)</i>	<i>198</i>	<i>(13,185)</i>	<i>(11,515)</i>	<i>(9,845)</i>	<i>(8,175)</i>	<i>35,703</i>	<i>35,846</i>	<i>36,724</i>	<i>37,472</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(50,000)	(35,437)	(35,196)	(50,000)	(50,000)	(50,000)	(49,998)	0	0	0	0
Conservation															
Non-Federal Debt Service	0	1,303	4,479	8,336	12,369	16,530	20,815	25,230	29,726	34,238	38,750	43,263	80,297	116,571	119,408
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	0	(1,538)	(4,821)	(8,415)	(12,140)	(15,960)	(19,871)	(23,898)	(28,031)	(32,146)	(36,233)	(40,311)	(43,806)	(45,282)	(46,431)
MRNR 1/	0	0	361	0	0	0	0	0	0	0	0	(606)	(34,129)	(47,337)	(63,651)
<i>Total Revenue Requirement</i>	<i>0</i>	<i>(236)</i>	<i>19</i>	<i>(79)</i>	<i>229</i>	<i>569</i>	<i>944</i>	<i>1,331</i>	<i>1,695</i>	<i>2,093</i>	<i>2,517</i>	<i>2,346</i>	<i>2,363</i>	<i>23,951</i>	<i>9,326</i>
1/ or Cash Flow	0	0	(997)	(1,063)	(646)	0	(1)	(1,205)	(721)	0	2	(40,009)	(9,733)	21,024	7,156

Capital Related Revenue Requirement Components

Power

(\$thousands)	Changes From Base														
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue Financing															
Non-Federal Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(389)	(1,777)	(3,521)	(6,063)	(10,690)	(15,428)	(19,077)	(24,349)	(30,690)	(36,492)	(42,285)	(47,598)	(52,203)	(57,371)	(62,983)
MRNR 1/	31,756	33,351	35,300	37,843	42,450	47,246	50,895	56,231	62,690	68,377	74,240	80,055	83,245	100,142	94,218
<i>Total Revenue Requirement</i>	<i>31,367</i>	<i>31,573</i>	<i>31,779</i>	<i>31,780</i>	<i>31,759</i>	<i>31,817</i>	<i>31,818</i>	<i>31,882</i>	<i>32,000</i>	<i>31,885</i>	<i>31,955</i>	<i>32,457</i>	<i>31,042</i>	<i>42,771</i>	<i>31,235</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(156,279)	(35,437)	(35,196)	(146,658)	(106,539)	(75,151)	(68,599)	0	0	0	0
Power Revenue Financing Amounts															
AAC	63	30	636	40,755	156,279	35,437	35,196	146,658	106,539	75,151	68,599	-	-	-	-
Revenue Financing	<u>31,756</u>	<u>33,351</u>	<u>36,300</u>	<u>40,056</u>	<u>48,043</u>	<u>47,246</u>	<u>50,895</u>	<u>61,941</u>	<u>67,452</u>	<u>68,377</u>	<u>74,242</u>	<u>85,627</u>	<u>89,338</u>	<u>106,558</u>	<u>111,802</u>
Total	<u>31,820</u>	<u>33,380</u>	<u>36,936</u>	<u>80,811</u>	<u>204,322</u>	<u>82,683</u>	<u>86,091</u>	<u>208,599</u>	<u>173,991</u>	<u>143,527</u>	<u>142,841</u>	<u>85,627</u>	<u>89,338</u>	<u>106,558</u>	<u>111,802</u>
AAC															
Non-Federal Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	0	0	(8)	(490)	(2,770)	(4,923)	(5,765)	(7,906)	(10,783)	(12,847)	(14,561)	(15,375)	(15,295)	(15,237)	(15,198)
MRNR 1/	0	0	0	0	0	0	0	0	0	0	0	(1,200)	(914)	(503)	(761)
<i>Total Revenue Requirement</i>	<i>0</i>	<i>0</i>	<i>(8)</i>	<i>(490)</i>	<i>(2,770)</i>	<i>(4,923)</i>	<i>(5,765)</i>	<i>(7,906)</i>	<i>(10,783)</i>	<i>(12,847)</i>	<i>(14,561)</i>	<i>(16,575)</i>	<i>(16,209)</i>	<i>(15,740)</i>	<i>(15,959)</i>
1/ or Cash Flow	(0)	(0)	(619)	(39,638)	(152,001)	(35,437)	(35,196)	(142,643)	(103,623)	(75,150)	(68,599)	(39,416)	(42,948)	(46,834)	(62,890)

Capital Related Revenue Requirement Components

Power

(\$thousands)	Changes From Base														
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Prepay - low, AAC															
Non-Federal Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(5,622)	(15,460)	(19,449)	(18,730)	(18,456)	(18,212)	(17,033)	(16,739)	(16,806)	(16,059)	(14,911)	(14,159)	(13,536)	(12,899)	(12,292)
MRNR 1/	4,937	14,970	49,364	9,244	0	14,563	14,804	0	0	0	0	41,249	40,827	41,310	41,556
<i>Total Revenue Requirement</i>	<i>(685)</i>	<i>(490)</i>	<i>29,914</i>	<i>(9,486)</i>	<i>(18,456)</i>	<i>(3,649)</i>	<i>(2,229)</i>	<i>(16,739)</i>	<i>(16,806)</i>	<i>(16,059)</i>	<i>(14,911)</i>	<i>27,091</i>	<i>27,291</i>	<i>28,411</i>	<i>29,264</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(153,370)	(35,437)	(35,196)	(144,011)	(104,991)	(75,151)	(68,599)	0	0	0	0
Conservation, AAC															
Non-Federal Debt Service	0	1,303	4,479	8,336	12,369	16,530	20,815	25,230	29,726	34,238	38,750	43,263	80,297	116,571	119,408
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	0	(1,538)	(4,821)	(10,204)	(22,713)	(35,062)	(42,173)	(54,361)	(69,742)	(81,956)	(92,559)	(99,742)	(103,157)	(105,537)	(107,907)
MRNR 1/	0	0	361	0	0	0	0	0	0	0	0	(1,827)	(34,960)	(47,337)	(63,651)
<i>Total Revenue Requirement</i>	<i>0</i>	<i>(236)</i>	<i>19</i>	<i>(1,868)</i>	<i>(10,345)</i>	<i>(18,532)</i>	<i>(21,358)</i>	<i>(29,132)</i>	<i>(40,016)</i>	<i>(47,718)</i>	<i>(53,809)</i>	<i>(58,305)</i>	<i>(57,819)</i>	<i>(36,303)</i>	<i>(52,151)</i>
1/ or Cash Flow	0	0	(997)	39,716	159,248	35,437	35,195	148,229	107,993	75,151	68,603	(38,789)	(8,902)	43,624	16,012
Combination #1															
Non-Federal Debt Service	0	1,303	4,479	8,336	12,369	16,530	20,815	25,230	29,726	34,238	38,750	43,263	80,297	116,571	119,408
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(5,334)	(15,539)	(28,717)	(45,330)	(59,576)	(74,108)	(86,869)	(93,558)	(96,233)	(97,331)	(99,018)	(101,758)	(104,418)	(104,653)	(104,356)
MRNR 1/	4,937	16,382	98,239	86,917	0	127,874	129,209	16,206	58,581	89,253	95,804	152,078	117,949	82,277	79,439
<i>Total Revenue Requirement</i>	<i>(397)</i>	<i>2,145</i>	<i>74,001</i>	<i>49,923</i>	<i>(47,207)</i>	<i>70,295</i>	<i>63,155</i>	<i>(52,122)</i>	<i>(7,927)</i>	<i>26,160</i>	<i>35,537</i>	<i>93,584</i>	<i>93,829</i>	<i>94,195</i>	<i>94,491</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(156,037)	(35,437)	(35,196)	(146,658)	(106,539)	(75,151)	(68,599)	0	0	0	0
Combination #2															
see Conservation, AAC															

Capital Related Revenue Requirement Components

Power

(\$thousands)	Changes From Base														
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Combination #3															
Non-Federal Debt Service	0	1,303	4,479	8,336	12,369	16,530	20,815	25,230	29,726	34,238	38,750	43,263	80,297	116,571	119,408
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal Net Interest	(5,622)	(16,998)	(24,281)	(27,183)	(30,645)	(34,215)	(36,945)	(40,665)	(44,843)	(48,202)	(51,143)	(54,465)	(57,336)	(57,843)	(57,900)
MRNR 1/	4,937	14,970	50,360	10,308	0	14,563	14,804	0	0	2	0	40,487	7,134	(27,363)	(29,087)
<i>Total Revenue Requirement</i>	<i>(685)</i>	<i>(725)</i>	<i>30,558</i>	<i>(8,540)</i>	<i>(18,276)</i>	<i>(3,122)</i>	<i>(1,326)</i>	<i>(15,436)</i>	<i>(15,117)</i>	<i>(13,962)</i>	<i>(12,392)</i>	<i>29,285</i>	<i>30,095</i>	<i>31,365</i>	<i>32,421</i>
1/ or Cash Flow	(63)	(30)	(636)	(40,755)	(153,387)	(35,437)	(35,196)	(144,045)	(105,010)	(75,151)	(68,597)	0	0	0	0
Combination #4 <i>see Prepay - high</i>															
Combination #5 <i>see Prepay - low, AAC</i>															

ATTACHMENT C

DRAFT REQUEST FOR OFFERS AND CERTAIN APPENDICES

JUNE 27, 2012 DRAFT ELECTRICITY PREPAYMENT
REQUEST FOR OFFERS

1. **Request for Offers from Preference Customers.** The Bonneville Power Administration (BPA) issues this Request for Offers (“RFO”) on this date, [August 6, 2012], soliciting offers from BPA’s preference customers to prepay for electricity (also referred to as “electric power”) purchased from BPA pursuant to their existing power sales agreements (“PSAs”) with BPA.
2. **Preference Customers.** Offers may be submitted by any preference customer that has executed a PSA with BPA to purchase electricity through September 30, 2028. Preference customers making offers (“Offerors”) may have a load-following PSA or a slice/block PSA, or in the future could be served under a block only PSA. The Prepayment (defined below) will be made pursuant to the contract formed by BPA’s acceptance of the related Offer(s) (defined below) and a ‘springing amendment’ to applicable PSAs in the form of a revision to Exhibit D of the existing PSAs (“Amendment”). The form of the Amendment is attached as Appendix H.
 - (a) **Timeline.** Offers conforming to the requirements of this RFO must be submitted to BPA no later than Noon, Pacific Time on November 30, 2012 (“Offer Deadline”). Prepayments under this RFO shall be made no later than March 29, 2013 (“Prepayment Deadline”). This will provide approximately four months after BPA accepts Offers for preference customers whose Offers are accepted (“Awarded Customers”) to arrange for the marketing, pricing and closing of Bonds (defined below) or otherwise to obtain the funds necessary to make the Prepayments.
 - (b) **Communications.** Unless otherwise provided, communication by and between BPA and preference customers, Offerors, Prepaying Customers, Awarded Customers (each as defined or described herein) for all notices, filings and other statements hereunder, including, any exercise of any right to under this RFO or the contract formed by acceptance of Offers hereunder by BPA, shall be made electronically to be followed immediately thereafter with the delivery of physical documentation via express mail. Where signed documents are required, they shall be provided by portable document format (PDF) followed immediately with physical delivery of originals. For example, the set of documents required for a conforming Offer requires the submission of several documents, some of which must be executed. Given the time sensitive nature of the submission of Offers and acceptance thereof by BPA, PDF signatures are required in the submission of Offers.

Communications to BPA shall be addressed to:

Jon M. Dull, Manager Debt and Investment Management
Bonneville Power Administration
Routing: FTC-2
905 NE 11th Avenue
Portland, OR 97232

Email: jmdull@bpa.gov or powerprepays@bpa.gov

- (c) **Value of Electricity the Purchase Price of Which May Be Paid through Prepayments.** This RFO invites preference customers to offer to prepay for electricity to be delivered by BPA in discrete increments (“Blocks”). The maximum number of offered Blocks that BPA will accept under this solicitation will be announced by BPA not later than fourteen (14) calendar days prior to the Offer Deadline. Each Block will represent the right to prepay the purchase price for \$50,000 value of electricity from BPA each month during the period commencing on a date specified in the RFO (“Credit Commencement Date”) and ending September 30, 2028.
- (i) **Credit Commencement Date.** The Credit Commencement Date is the first calendar day of the first full calendar month after the Prepayment Deadline and corresponds to the first day of power sales to which Prepayments will relate. The Commencement Date is April 1, 2013. Prepayment Credits (defined below) accruing for a month will be available to offset payment obligations otherwise due to BPA with respect to that month under Section 16.2 of the PSA.
- (ii) **Value of Electricity Offered.** BPA expects that the maximum value of electricity for which Prepayments will be accepted under this RFO will be between \$2.25 million per month (45 Blocks) and \$6.0 million per month (120 Blocks). The expected aggregate Prepayments will not exceed (A) BPA’s estimated capital expenditures for federally-owned hydroelectric facilities of the Federal Columbia River Power System in Fiscal Years 2014-2015 as set forth in BPA’s Fiscal Year 2014-2015 Power Rate Case, Integrated Program Review, plus (B) BPA’s actual capital expenditures for such hydroelectric facilities to the extent they were funded in Fiscal Year 2013 from cash reserves in the BPA fund in anticipation of later borrowings from the United States Treasury (BPA frequently refers to this practice as “deferred borrowing”). BPA expects that the aggregate Prepayments it would accept could be in the range of \$300 million to \$600 million under this RFO.
- (d) **Right to Amend the RFO.** BPA reserves the right to cancel, amend and clarify the terms and conditions of this RFO at any time prior to the Offer Deadline, provided, that, such amendments or clarifications will be communicated by BPA not later than five (5) business days prior to the Offer Deadline, as such date may be amended. BPA may cancel the RFO at any time for any reason. BPA assumes no obligation to reimburse preference customers for any expenses in preparing an Offer.
- (e) **Formation of Contract.** Upon the acceptance by BPA of any and all Offers, as provided herein, the terms of this RFO shall constitute a binding contract by and between BPA and each Offeror with respect to each of its Offers that BPA has accepted.
3. **Schedule of Value of Electricity to Be Delivered by BPA Each Month to Which Prepayments May Apply.** As provided in the Amendment, see Appendix H, each Awarded Customer that makes its required payment (“Prepaying Customer”) shall be entitled to monthly reductions (“Prepayment Credits”) for the period from the Credit Commencement Date through September 30, 2028, reflecting the value of electricity attributable to its Prepayment for each such month. Prepayment Credits are associated with and reflect the right to receive delivery of a specified value of electricity from BPA each month. As provided in the Amendment, see Appendix H, the Prepayment Credits are the dollar amounts that the Prepaying Customer would have paid in the related month but for the amount it prepaid, and

shall be shown on the Prepaying Customer's monthly power bill as reductions to the amount that otherwise would be payable with respect to the Prepaying Customer's purchases of electricity from BPA. In return, the Prepaying Customer shall make a lump sum cash payment with respect to each Offer of a Block that BPA has accepted ("Prepayment") to BPA no later than the Prepayment Deadline. While each Prepaying Customer will aggregate its Prepayments into a single payment to BPA, each Offer is associated with an individual Prepayment.

- (a) ***Prepayments for Electricity.*** As provided in the Amendment, except in connection with deemed assignments of Prepayment Credits by BPA to other purchasers of electricity and possibly in connection with any accumulation of unused Prepayment Credits, each as set forth in Section #.3 of the Amendment, see Appendix H, Prepayment Credits apply only to payments the Prepaying Customer otherwise would be required to make to BPA for each month as a result of the Prepaying Customer's purchases of electricity from BPA during that month pursuant to the Prepaying Customer's PSA. For avoidance of doubt, a Prepayment does not entitle the Prepaying Customer to payment credits for transmission or related services or any other products, apart from electricity, that it purchases from BPA, or for any other obligation, apart from the purchase of electricity, that the Prepaying Customer owes to BPA.
 - (b) ***Fixed Value of Prepaid Electricity.*** As provided in the Amendment a Prepaying Customer's Prepayment is *not* for a fixed quantity of electricity. Rather, a Prepayment is and will be treated as meeting the obligation of the Prepaying Customer (or any deemed assignee of Prepayment Credits under Section #.3 of the Amendment, see Appendix H) to make payment to BPA for a fixed monthly *value* of electricity. As provided in the Amendment, the *quantity* of electricity to which the Prepayment applies shall vary, depending on BPA's rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA's rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits under Section #.3 of the Amendment, see Appendix H). The schedule of the value of electricity to be prepaid each month will be fixed, as provided in the Amendment, and will not be subject to change after the associated Prepayment is made and the Amendment takes effect.
 - (c) ***Prepaid Electricity and Prepayment Credits May Not Be Assigned.*** Prepaying Customers shall not be permitted to assign their rights to the prepaid electricity or the related Prepayment Credits to any other person; however, it is possible that certain deemed assignments of Prepayment Credits could be made by BPA under circumstances described in Section #.3 of the Amendment, see Appendix H.
4. **Auction Process / Adjustments.**
- (a) ***Blocks.*** Each offer to purchase a Block shall be made by the Offeror delivering to BPA a form attached as Appendix A (each an "Offer," although an Offeror may submit a number of individual Offers through a single Form of Offer as described in Appendix A). Each Offer shall specify a "Purchase Price," meaning the Prepayment amount the Offeror is willing to pay for a Block. Offerors may submit multiple Offers, each for the purchase of a single Block, although the aggregate number of Offers an Offeror may submit is subject to the limits described in Paragraph 4(b). An Offeror may (but need not) offer a different Purchase Price for each Block offered.
 - (b) ***Offers Limited.***
 - (i) ***Prepayment Limit.*** Each preference customer is limited in the number of Blocks it may offer to purchase. The limit is the lesser of (A) the

estimated credits that could be provided to the preference customer in connection with Net Billing Agreements in Contract Years 2014 – 2018 assuming no BPA direct payments to Energy Northwest, and (B) 50% of the smallest amount expected to be paid to BPA by the Offeror under its PSA for firm power purchased during any Contract Year from Contract Years 2014 through Contract Year 2018. See Appendix B.

- (ii) Confidential Communication of Prepayment Limit to Each Preference Customer. BPA will determine and provide separately to each preference customer, on a confidential basis, the maximum number of Blocks for which the preference customer may submit Offers consistent with the foregoing limitation in Paragraph 4(b)(i). To receive the foregoing information regarding the maximum number of Blocks a preference customer may offer, it must send BPA an electronic communication requesting the information no later than 5:00 PM on October 15, 2012.
- (c) **No Partial Blocks**. Each Offer shall be for the purchase of a single whole Block; however, under circumstances outlined in Appendix C, a preference customer may participate in the purchase of a partial block if it enters into a financial arrangement with another Prepaying Customer that acts as a consolidator.
- (d) **Certification of True Interest Cost**. Each Offeror that wishes to have available the Offeror Off-Ramp described in Paragraph 6(c)(ii) must include in its related Offer(s) (i) a certification of the Offeror's estimated true interest cost on indebtedness that might be issued to finance the Offeror's Prepayment assuming the indebtedness were issued on the day of the Offer Deadline, computed as set forth in Appendix A ("TIC"), and (ii) a certification of the differential ("Initial Spread") between (A) the published yield on such date on 10-year U.S. Treasury obligations, as communicated by BPA to potential Offerors by 7:00 AM Pacific Time on the day of the Offer Deadline, and (B) the TIC, in each case confirmed by a certification of the Offeror's independent financial advisor ("Advisor"), on the form set forth in Appendix A. The Offeror Off-Ramp described in Paragraph 6(c)(ii) shall be available to an Offeror only if its related Offer(s) has met the conditions establishing the Off-Ramp right.
- (e) **Market Clearing Price**. In general, BPA will accept Offers for Blocks based on the Offer(s) that provide(s) the highest Purchase Price (*i.e.*, the largest Prepayment) that 'clears the market' ("Market Clearing Purchase Price"). The Market Clearing Purchase Price is the highest Purchase Price which, together with all other offered Blocks at that or a greater Purchase Price, provides BPA with an aggregate amount of Prepayments that BPA determines is appropriate. All Awarded Customers shall pay the Market Clearing Purchase Price for each offered Block that BPA accepts. Thus, with respect to an offered Block, it is possible that an Awarded Customer may become obligated to provide a lower Prepayment (*i.e.*, Purchase Price) than the amount that it submitted in its accepted Offer(s) if the Market Clearing Purchase Price is lower than Purchase Price submitted in the accepted Offer(s).
- (f) **Certification of Authority to Issue Bonds**. Each Offer must include a certification substantially in the form attached as part of Appendix A to the effect that any bonds, notes or other indebtedness ("Bonds") proposed to be issued to fund a Prepayment are authorized under applicable federal, state and local law, as well as any applicable resolutions, charters, bylaws or other rules or regulations that apply to the Awarded Customer or to any other entity that is proposed to issue Bonds to fund the Prepayment.

- (g) ***Certification of Independent Offer(s)***. Any collusion among Offerors in establishing the number of Blocks offered or the Purchase Price offered for any Block is prohibited. Each Offer must include a certification of independent offer by the Offeror, substantially in the form attached as Appendix D.
- (h) ***Evaluation and Acceptance of Offers***.
- (i) ***BPA Evaluation of Offers***. As soon as reasonably practicable following the Offer Deadline, but in no event more than two (2) business days thereafter, BPA will complete its evaluation of the Offers received to determine (A) which Offers conform to the RFO, and (B) the aggregate amount of conforming Offers (if any) that BPA will accept, up to the maximum amount theretofore specified by BPA. This evaluation will be made without regard to how an Offeror proposes to fund its Prepayment.
- (ii) ***Nonconforming Offers***. BPA, in its discretion, may advise any Offeror that has submitted a nonconforming Offer of the manner in which the Offer fails to conform to the RFO, in which case the Offeror may submit a revised Offer. Any such revised Offer must be submitted to BPA no later than 5:00 PM Pacific Time on the day of the Offer Deadline.
- (iii) ***Initial Spread***. By 5:00 PM Pacific Time on the second business day after the day of the Offer Deadline, BPA will notify on a confidential basis each Offeror whose Offer(s), included the Offeror Off-Ramp under Paragraph 6(c)(ii)(A) and whose Offer(s), BPA believes is/are potentially acceptable whether (A) BPA concurs with the certified Initial Spread included in the related Offer(s), and (B) if BPA does not concur with the certified Initial Spread, the Initial Spread that BPA determines is appropriate. By Noon Pacific Time on the third business day after the day of the Offer Deadline, if the Offeror and BPA have not agreed upon an Initial Spread that will apply to the Offeror, then either (Y) the Offeror may advise BPA that the Offeror opts to forego the Off-Ramp described in Paragraph 6(c)(ii)(A), or (Z) the Offer will be considered to be a nonconforming Offer.
- (iv) ***BPA Acceptance of Offers***. By 5:00 PM Pacific Time on the third business day after the original deadline for submitting Offers, BPA will advise all Offerors of (A) the aggregate number of Blocks that BPA is accepting, (B) the Adjustment Cap (defined in Paragraph 5(c)), and (C) the Market Clearing Purchase Price applicable to all offered Blocks that BPA is accepting. BPA will accept Offers by executing the applicable Amendments as provided in Paragraph 7.
- (A) ***Over-Subscription***. If conforming Offers are made for more than one Block at the Market Clearing Purchase Price, BPA will accept all such Offers, subject to the limit described in Paragraph 2(c)(ii) or such other lower aggregate amount of Prepayments that BPA determines to accept. If BPA determines to accept fewer than all conforming Offers originally made at the Market Clearing Purchase Price, BPA may accept conforming Offers originally made at the Market Clearing Purchase Price by lottery.
- (B) ***Under-Subscription/Invitations to Re-Offer***. If BPA determines that the potentially acceptable Offers will not provide Prepayments in an aggregate amount sufficient to meet BPA's purposes, BPA reserves the right and ability to and may invite Offerors whose offered Purchase Prices were lower than the Market Clearing Purchase Price to re-offer at the Market Clearing Purchase Price. BPA will extend

the invitations to re-offer in order ranked on the basis of the original Offers that were closest to the Market Clearing Purchase Price.

- (i) **Price Paid for Accepted Offers.** The Market Clearing Purchase Price will apply with respect to all accepted Offers.
 - (j) **Rejection of All Offers / Reservation Price.** BPA will establish a reservation price. If BPA accepts any Offer(s) it will communicate the reservation price it used to all Offerors by the end of the third business day after the day of the Offer Deadline. BPA reserves the right to reject all Offers without regard to its use or establishment of a reservation price.
- 5. Market Rate Adjustment.** If and only if an Awarded Customer has so designated in its Offer(s), the Purchase Price to be paid for the related Offer(s) accepted by BPA will be subject to later adjustment (“Market Rate Adjustment”) to reflect the change in yield of 10-year U.S. Treasury obligations between (Y) the day of the Offer Deadline (using the published yield on 10-year U.S. Treasury obligations at the close of the business day immediately preceding the day of the Offer Deadline, as will be communicated by BPA to potential Offerors no later than 7:00 AM Pacific Time on the day of the Offer Deadline) and (Z) 5:00 PM Pacific Time on the date that the Awarded Customer elects to lock in a Market Rate Adjustment for such Offer, as provided in a notice to BPA (“Lock-In Date”). Thus, if an accepted Offer does not specify that the Awarded Customer is electing into the Market Rate Adjustment, the Market Clearing Purchase Price shall be the amount specified in the accepted Offer. ***The Market Rate Adjustment is subject to a cap, as provided in Paragraph 5(c).***
- (a) **Lock-In Date.** The Lock-In Date shall not be earlier than three (3) business days following the date of the notice; provided that, in no instance shall the Lock-In Date be later than the tenth business day prior to the Prepayment Deadline, and if the Awarded Customer has not established by notice to BPA a Lock-In Date that is a date before the tenth business day prior to the Prepayment Deadline, the Lock-In Date shall be the tenth business day prior to the Prepayment Deadline. An Awarded Customer may cancel the Lock-In Date designated in its notice at any time prior to 5:00 PM Pacific Time on the designated Lock-In Date, effective at the time BPA receives notice thereof, at which point the Awarded Customer shall be free to designate a new Lock-In Date by notice to BPA, subject to the limitation in the prior sentence that in no instance shall the Lock-In Date be later than the tenth business day prior to the Prepayment Deadline.
 - (b) **Separate Lock-In Date for Each Offer.** The Lock-In Date applies on an Offer basis, not on an Awarded Customer basis. For example, an Awarded Customer may elect to have a Lock-In Date in connection with a Prepayment for a Block which is expected to be funded with the issuance of Bonds and another Lock-In Date in connection with a Prepayment for a Block which is expected to be funded from cash-on-hand.
 - (c) **Adjustment Cap.** The Market Rate Adjustment shall not exceed a percentage, expressed in basis points, announced by BPA when it accepts the Offers (“Adjustment Cap”). The Market Rate Adjustment will increase or decrease the applicable Purchase Price (*i.e.*, Prepayment amount) as provided in Appendix E, subject to the Adjustment Cap.
 - (d) **Verification of Market Rate Adjustment.** On or before the second business day after a Lock-In Date applicable to an accepted Offer, BPA will notify the Awarded Customer of the amount of the Market Rate Adjustment for the related Offer(s), and the Awarded Customer shall have the opportunity to verify the accuracy thereof prior to the Prepayment Deadline. In the event of a dispute over the Market Rate Adjustment which is not resolved by the Prepayment Deadline,

the Awarded Customer shall make its Prepayment on or before the Prepayment Deadline in the amount determined by reference to the BPA-determined Market Rate Adjustment, subject to final resolution under the dispute resolution provisions of the PSA applicable to disputed bills.

6. **Funding Prepayments / Off-Ramps.**

- (a) **Timing.** The Prepayment must be made on or before the Prepayment Deadline. Awarded Customers may choose to pay BPA before the Prepayment Deadline, but the Prepayment amount will not be adjusted for early payment.
- (b) **Source of Funding.** Awarded Customers will have flexibility to fund their Prepayments from whatever source(s) they choose (for example, cash-on-hand; proceeds from the issuance of Bonds), so long as the funding is consistent with applicable law, the terms of the PSAs, and the principles described in this RFO.
- (c) **Offeror Off-Ramps.**
 - (i) **Adjustment Cap Off-Ramp.** An Awarded Customer that elects in an Offer to have the Market Rate Adjustment apply may elect not to make its Prepayment with respect to that Offer if, on the applicable Lock-In Date, the Adjustment Cap is in effect.
 - (ii) **Bond-Related Off-Ramps.** An Awarded Customer that submits an Offer advising BPA that the Awarded Customer expects to issue Bonds to fund the Prepayment may elect not to make its Prepayment with respect to that Offer if:
 - (A) the estimated differential between the TIC on Bonds described in the Awarded Customer's Certification of Expected True Interest Cost and Initial Spread and the TIC on 10-year U.S. Treasury Obligations ("**Termination Spread**") as of the Lock-In Date has increased above the Initial Spread by more than 25 basis points (0.25%), determined as provided in Appendix F; or
 - (B) on the applicable Lock-In Date for the Offer, or in the twenty-one (21) calendar days thereafter (but in no event later than the business day before the Prepayment Deadline), any of the conditions described in Appendix G exists and such condition has resulted or will result in the failure (i) to achieve an executed Bond Purchase Agreement for the Bonds, or (ii) to close the related Bond sale.
 - (iii) **Termination Notices.**
 - (A) To exercise the right to terminate under Paragraph 6(c)(i), the Awarded Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination and a good faith estimate that the Adjustment Cap is in effect.
 - (B) To exercise the right to terminate under Paragraph 6(c)(ii)(A), the Awarded Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination and a good faith estimate (confirmed by a certification from the Advisor which certified the Initial Spread), that the Termination Spread as of the Lock-In Date is expected to be greater than the Initial Spread by more than 25 basis points (0.25%).
 - (C) To exercise the right to terminate under Paragraph 6(c)(iii)(B), the Awarded Customer must provide BPA with an irrevocable notice of termination, together with a certification by it that one or more of the conditions described in Appendix G exists on the date of termination and has or will result in the failure (i) to achieve an executed Bond

Purchase Agreement for the Bonds, or (ii) to close the related Bond sale.

- (iv) Effect of Termination Notice. The right and obligation of the Awarded Customer to make its Prepayment with respect to an accepted Offer shall terminate upon delivery of a notification to BPA under Paragraph 6(c)(iii) with regard to Paragraphs 6(c)(i), 6(c)(ii)(A) or 6(c)(ii)(B); provided, however, that in lieu of termination under this Paragraph 6(c), the Awarded Customer may specify a new Lock-In Date by notifying BPA thereof in accordance with Paragraph 5(a).
 - (v) Reimbursement of Costs. If an Awarded Customer exercises a termination election under this Paragraph 6(c) with respect to any accepted Offer, BPA will reimburse the Awarded Customer for up to \$100,000 of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or the proposed use of other available cash to fund the Prepayment(s), which would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s), in each case to the extent those costs were incurred during the period commencing on the date on which BPA accepted the Offer(s) through and including the date of the Awarded Customer's termination. If an Awarded Customer terminates only some of its Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers that are not terminated.
- (d) **BPA Off-Ramps.**
- (i) If Bond Financing Is Expected. Where an Offer indicates that the Awarded Customer or another entity is expected to issue Bonds to fund the related Prepayment(s), BPA may for any reason and without cause, at any time before an applicable Lock-In Date for the Offer, terminate its right and obligation to receive the Prepayment and provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on the business day before the Lock-In Date.
 - (ii) If Bond Financing Is Not Expected. Where an Offer indicates that the Awarded Customer or another entity is not expected to issue Bonds to fund the related Prepayment, BPA may, for any reason and without cause at any time before the Prepayment Deadline, terminate its right and obligation to receive the Prepayment and provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on the business day before the Prepayment Deadline. In such an instance, BPA shall immediately return any funds theretofore were transferred to BPA by the Awarded Customer in respect of its Prepayment obligation prior the termination and/or the Prepayment Deadline.

If BPA exercises the termination right described in this Paragraph 6(d)(i) or Paragraph 6(d)(ii), BPA will reimburse the Awarded Customer for up to \$100,000 of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or

the proposed use of other available cash to fund the Prepayment(s), in each case to the extent those costs were incurred during the period commencing on the date on which BPA accepted the Offer(s) through and including the date of BPA's termination, but only to the extent those costs would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s). If BPA terminates only some of an Awarded Customer's Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers that are not terminated.

7. **Amendments to Existing PSAs.** The Amendment must be executed by the Offerors as part of their Offer(s), and if the Offer(s) are accepted by BPA, will be executed by BPA. The execution by BPA of an Amendment will constitute BPA's acceptance of the related Offer(s), consistent with Paragraph 4 above. Once executed by BPA, the Amendment shall take effect on the Prepayment Deadline, but only if BPA has received the Prepayment on or before the Prepayment Deadline, and no termination under Paragraph 6(c) or 6(d) has occurred. All other provisions of the existing PSAs with Prepaying Customers shall remain unchanged.
8. **Bonds Issued to Fund Prepayment(s) Will Not Be Guaranteed by BPA.** BPA will not provide any guarantee of the payment of principal of or interest on any Bonds issued by or for the benefit of any Awarded Customer to fund its Prepayment(s) or to refund or refinance such Bonds.
 - (a) **Disclosure.** If Bonds are issued to fund a Prepayment, disclosure materials are prepared with respect to those Bonds, and the disclosure materials include a description of the Amendment, then the disclosure materials also shall include the following statement: "*The [Bonds] are not a debt or other obligation of Bonneville Power Administration, and the [Bonds] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund.*"
 - (b) **Pledging Remittances.** The Awarded Customer may pledge or otherwise grant a security interest in (i) BPA's remittances of cash reflecting BPA's deemed assignments of electricity for an Awarded Customer in Section #.3 of the Amendment, see Appendix H, and (ii) money damages arising from any breach by BPA of its obligations under the Amendment. However, any such pledge shall not provide or purport to provide the pledgee with any right to bring any legal action against BPA to enforce rights of the Awarded Customer against BPA.

APPENDIX A

OFFER

PLEASE NOTE: To constitute a conforming Offer, the Offeror must submit more than a single Offer form if the Offeror is offering to purchase more than one Block but only if (i) the Offeror expects to fund its Prepayment for one or more Blocks through the issuance of Bonds and to fund its Prepayment for one or more Blocks without the issuance of Bonds, (ii) the Offeror elects to have the Market Rate Adjustment under Paragraph 5 of the RFO apply to some but not all of its Offers, or (iii) the Offeror establishes the Bond-Related Off-Ramps under Paragraph 6 of the RFO for some but not all of its Offers. Conversely, an Offeror may bundle a number of Offers using a single Offer form, but all Offers so bundled must have identical terms.

Part I. Definitions

Unless otherwise provided, capitalized terms in this Offer shall have the meanings assigned to such terms in the Request for Offers of Bonneville Power Administration ("BPA"), dated [August 6], 2012, (the "RFO").

Part II. Offers

Pursuant to the RFO, [_____] ("Offeror") hereby offers to purchase Blocks from BPA as follows:

<u>Number of Blocks</u>	<u>Purchase Price per Block</u> *
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Part III. Certification of Authority to Issue Bonds

For all Offer(s) submitted herein, Offeror must elect one of the following Alternatives:

[Alternative #1: The Offeror does not propose to issue Bonds to fund any portion of its Prepayment pursuant to the Offer(s) made herein.]

* Adjusted as set forth in Part V.

[Alternative #2: The Offeror has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Offeror, to issue Bonds to fund its offered Prepayment(s) pursuant to the Offer(s) made herein.]

[Alternative #3: The Offeror expects [] (the “Bond Issuer”) to issue Bonds for the benefit of the Offeror to fund a portion or all of the Offeror’s Prepayment(s) pursuant to the Offer(s) made herein. The Bond Issuer has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Bond Issuer, to issue Bonds to fund the offered Prepayment(s) pursuant to the Offer(s) made herein.]

Offeror hereby elects Alternative __ for each Offer submitted herein. Initial here: _____.

Part IV. Estimated TIC and Initial Spread, Applicable Only to Offers to be Financed with Bonds

If Offeror has selected Alternative # 2 or Alternative # 3 in Part III, the Offeror may establish an Off-Ramp under Paragraph 6(c)(ii) of the RFO by providing the information in (1) – (4) of this Part IV as part of this Offer. Failure to provide such information shall mean that the Offeror has irrevocably waived its right to that Off-Ramp.

For purposes of this Part IV:

- “Tested Bonds” means Bonds with characteristics described in (1) below that might be issued on or before April 1, 2013 to finance all or a portion of the Prepayment with respect to this Offer, with level monthly payments of principal and interest (or level monthly deposits to a mandatory debt service sinking fund), commencing May 1, 2013 and ending October 1, 2028.
- “True Interest Cost” or “TIC” means with respect to Tested Bonds, the rate of interest, compounded semiannually, that would be required to discount (i) the payments of principal and interest to holders of Tested Bonds to maturity to (ii) the purchase price paid by buy-and-hold investors in the Tested Bonds. Thus, TIC on Tested Bonds is determined without regard to costs of issuing the Tested Bonds, funded interest, any amounts deposited to a debt service reserve account, or amounts paid for bond insurance or other credit enhancement with respect to the Tested Bonds.

(1) As of the Offer Deadline, the Offeror reasonably expects that Bonds with the following general characteristics [*for example, the Offeror’s senior lien electric system revenue bonds, the Offeror’s subordinate lien electric revenue bonds, other*] will be issued to fund the Prepayment required pursuant to the Offer(s) made herein:

[_____]

(2) Under conditions in the capital markets as of the Offer Deadline, the Offeror reasonably expects the TIC on Tested Bonds to be no more than [Y.YY] percent per annum (carried out to the second decimal).

(3) Consequently, under conditions in the capital markets as of the Offer Deadline, the Offeror reasonably expects the TIC on Tested Bonds will

exceed the yield on 10-year Treasury obligations at the close of business on the business day immediately preceding the day of the Offer Deadline (as communicated by BPA to potential Offerors under Paragraph 4(d) of the RFO) by no more than [Z.ZZ] percent per annum (carried out to the second decimal) (“Initial Spread”).

Part V. Market Rate Adjustment

For all Offer(s) submitted herein, Offeror must elect one of the following Alternatives:

Alternative #A: The Offeror elects to apply the Market Rate Adjustment to the Purchase Price set forth in Part I.

Alternative #B: The Offeror elects ***not*** to apply the Market Rate Adjustment to the Purchase Price set forth in Part I.

The Offeror hereby elects Alternative # __ for each Offer submitted herein. Initial here: _____.

Part VI. Authority of the Undersigned

The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Offer on behalf of the Offeror.

Date: _____, 2012

[NAME OF OFFEROR]

By: _____
[Title]

**FORM OF CERTIFICATION OF EXPECTED
TRUE INTEREST COST AND INITIAL SPREAD**

The undersigned hereby certifies as follows in connection with the offer(s) ("Offer(s)") submitted by [_____] (the "Offeror") in response to the Request for Offers of Bonneville Power Administration), dated [August 6], 2012. Unless otherwise provided, capitalized terms in this Certification of Expected True Interest Cost and Initial Spread ("Certification") shall have the meanings assigned to such terms in the Offer(s) to which this Certification is attached:

1. The undersigned is an officer of [FINANCIAL ADVISOR] (the "Advisor") and is duly authorized to execute and deliver this Certification on behalf of the Advisor.
2. The Advisor serves as an independent financial advisor to the Offeror in connection with the Offer(s).
3. The undersigned has reviewed the Offer(s).
4. Under conditions in the capital markets on the date of this Certification, the Advisor certifies that it is reasonable for the Offeror to expect:
 - a. the TIC on Tested Bonds will be no greater than [_____] percent per annum, as set forth in the Offer; and
 - b. the Initial Spread will not exceed [_____] percent per annum.

Date: _____, 2012

[NAME OF ADVISOR]

By: _____]
[Title]

APPENDIX B

LIMIT ON AMOUNT OF OFFERS

Background - Net Billing Cushion. BPA and most preference customers (“Participants”) have entered into individual Net Billing Agreements to cover the costs of Energy Northwest’s Net Billed Projects. In these agreements, BPA has agreed to provide net billing credits against each Participant’s monthly bills for the purchase of power and related services received from BPA. These net billing credits may be applied against the Participant’s purchases of electricity or transmission service from BPA. In consideration of these net billing credits, each Participant has agreed to remit an equivalent amount of funds to Energy Northwest. While BPA currently funds all of Energy Northwest’s costs for the Net Billed Projects on a current basis through direct cash payments, the Net Billing Agreements remain in effect, and net billing could be reinstated at any time. Thus, a preference customer’s capacity to purchase Blocks from BPA could be constrained by the existing Net Billing Agreements. In the Net Billing Agreements, BPA and each Participant have covenanted not to enter into further agreements providing for payments (including credits) by BPA to the Participant unless, as determined by BPA, for each future Contract Year the total expected cash value of purchases of electricity and transmission services by the Participant from BPA will equal at least 115% of the aggregate of all expected billing credits to be provided by BPA to the Participant under the Energy Northwest Net Billing Agreements and any additional agreements providing for net billing.[†] BPA has entered into certain direct payment arrangements with Energy Northwest which may obviate net billing, depending on the existence of certain conditions now in effect. Direct payments could cease however, and net billing could be reinstated. For purposes of this calculation, direct payments and the existence of the direct payment arrangements are assumed not to exist.

Prepayment Limit. Offerors may not submit Offers to purchase Blocks representing an aggregate annual value of electricity exceeding the lesser of:

(A) for any Contract Year from 2014 through 2018, the smallest amount of:

$$L + M - N(1.15)$$

where L = amount BPA expects to bill the Offeror for purchases of firm power during the Contract Year, M = amount BPA expects to bill the Offeror for purchases of transmission services during the Contract Year, and N = the Offeror’s expected aggregate net billing obligations (in the absence of BPA direct payment) during the Contract Year; or

(B) 50% of the smallest amount expected to be paid by the Offeror to BPA for firm power purchased during any Contract Year from 2014 through 2018.

[†] See, for example, the Project 2 (now Columbia Generating Station) Net Billing Agreements, Section 7(d) (“The Administrator and the Participant shall not enter into any agreements providing for payments [this means net billing credit obligations] which the Administrator estimates will cause the aggregate of his billings to the Participant to be less than 115 percent of the Administrator’s net billing obligations to the Participants under all agreements providing for net billing.”), and Section 7(g) (“The estimates by the Administrator under this agreement of billing credits and of payments to be made by the Participant and the Administrator giving rise to such billing credits shall be conclusive.”)

APPENDIX C
CONSOLIDATORS

The PSAs of some preference customers permit them to purchase electricity from BPA for the purpose of reselling that electricity to other preference customers that would otherwise qualify to purchase electricity directly from BPA.

For example, a preference customer with a high prepayment limit (it has available prepayment billing capacity from BPA to purchase a relatively large number of Blocks) might invite one or more other preference customers (“Co-Participants”) to make prepayments to the Offeror in an amount equal to all or a portion of the Prepayment the Offeror is required to make to BPA for a single Block. The Offeror would promise to make periodic cash payments back to each Co-Participant as Prepayment Credits accrue with respect to that Block. The Offeror would use the prepayment(s) it receives from each Co-Participant to fund a portion or all of the Offeror’s Prepayment to BPA for that Block. In this way, preference customers might participate indirectly in the economic benefits and responsibilities of the Prepayment program even if BPA advises them that they are not eligible to offer to purchase as much as a single whole Block directly for their own account.

APPENDIX D

CERTIFICATION OF INDEPENDENT OFFER(S)

The undersigned hereby certifies as follows in connection with all offer(s) (“Offer(s)”) submitted by [_____] (“Offeror”) in response to the Request for Offers of Bonneville Power Administration (“BPA”), dated [August 6], 2012 (the “RFO”):

1. The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Certification of Independent Offer(s) on behalf of the Offeror.
2. The undersigned participated actively in the Offeror’s preparation of the Offer(s), including the decision as to the price(s) to be included in the Offer(s).
3. In preparing and submitting the Offer(s), [except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers,] neither the Offeror nor any officer or employee of the Offeror directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.
4. To the best of the knowledge and belief of the undersigned, [except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers,] no individual who has provided consulting services to the Offeror in connection with the Offeror’s preparation of the Offer(s) directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.

Date: _____, 2012

[NAME OF OFFEROR]

By: _____
[Title]

APPENDIX E
MARKET RATE ADJUSTMENT

Market Rate Adjustment =

$$P_{t+1} - P_t,$$

where:

$$P_{t+1} = \sum_{i=1}^N \frac{C_i}{(1 + r_t / 12)^i}$$
$$P_t = \sum_{i=1}^N \frac{C_i}{(1 + r_{t+1} / 12)^i}$$

- N = Total number of months for which power is prepaid (the Credit Commencement Date through September 30, 2028).
P_{t+1} = Purchase Price per Block as of the Lock-In Date
P_t = Purchase Price per Block as of the Bid Deadline
r_t = i_t + δ, where i_t = 10-year Treasury TIC as of the Bid Deadline
δ = basis as defined by Market Clearing Price
r_{t+1} = i_{t+1} + δ, where i_{t+1} = 10-year Treasury TIC as of the Lock-In Date
C_i = Prepayment Credit per Block for month i

APPENDIX F

[Form for exercising Offeror Off-Ramp Right by reason of Termination Spread – To Come]

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APPENDIX G

OFFEROR OFF-RAMPS FOR NON-CLOSING OF FINANCING

As described in Paragraph 6(c)(ii)(B) of the RFO, an Awarded Customer that is proposing to use proceeds of Bonds to fund its Prepayment(s) shall have the right to terminate its obligation to make Prepayments if any of the following conditions exists and such condition has or conditions have resulted in or will result in either (a) a failure to enter into a Bond Purchase Agreement within three (3) business days following the Lock-In Date, or (b) a failure to close the related Bond sale by the Prepayment Deadline:

1. the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any outbreak of hostilities or escalation thereof or other national or international calamity or crisis or a financial crisis, the effect of such outbreak, calamity or crisis on the financial markets of the United States of America being such as, in the reasonable opinion of the Bond purchaser or underwriter, would affect materially and adversely the marketability of the Bonds;
2. there shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or [host state] or a material disruption in commercial banking activities or securities settlement or clearance services shall have occurred;
3. there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any rating by Moody's, S&P or Fitch of the Bonds, or debt instruments of a character and credit quality similar to the Bonds, or any other securities issued by the Bond Issuer;
4. as of the Lock-In Date, an event shall have occurred which might or would cause an Official Statement or other offering document for Bonds, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or
5. legislation shall be enacted, or actively considered for enactment, or a decision by a court of competent jurisdiction shall hereafter be rendered, or action shall hereafter be taken or a ruling or regulation shall hereafter be issued by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject, to the effect that the issuance, offering or sale of the Bonds, or obligations of the general character of the Bonds, is in violation of, or that such obligations are not exempt from the registration, qualification under or other similar requirements of, the Securities Act of 1933, amended and as then in effect, or of the Trust Indenture Act of 1939, as amended and as then in effect.

APPENDIX H

FORM OF REVISION TO EXHIBIT D TO PSA

Revision No. «#», Exhibit D
ADDITIONAL PRODUCTS AND SPECIAL PROVISIONS
Effective «Insert Date BPA Receives Prepayment Amount»

This revision adds section «#» to capture the terms and conditions of «Customer Name»'s participation in the prepayment program.

#. «CUSTOMER NAME»'S PARTICIPATION IN PREPAYMENT PROGRAM

#.1 General

Drafter's Note: If customer participates in more than one prepay program, repeat (copy and paste) the paragraph below for each year/program the customer participates in; insert additional «Year» RFO" throughout document as necessary.

«Customer Name» submitted one or more offers under BPA's "Request for Offers for Prepaid Electricity," dated «insert date» («Year» Prepay RFO) to purchase "Blocks" as defined in the «Year» Prepay RFO. BPA has accepted «Customer Name»'s offer(s) under the conditions provided in the «Year» Prepay RFO.

By virtue of the offer(s) submitted by «Customer Name» to BPA under the «Year» Prepay RFO and the acceptance by BPA thereof, «Customer Name» and BPA contracted, among other things, to the following obligations: (1) «Customer Name» has agreed to provide \$«insert \$ amount» as a prepayment (Prepayment Amount) for electric power to be delivered by BPA under this Agreement, and (2) conditioned upon receipt by BPA of the Prepayment Amount from «Customer Name», BPA shall provide to «Customer Name» (a) certain Prepayment Credits, which shall entitle «Customer Name» to reductions to the amount on «Customer Name»'s monthly power bill that would otherwise be owed to BPA for electric power purchased under this Agreement, and (b) certain cash remittances that may arise if Excess Prepayment Credits are deemed assigned to other BPA power customers as set forth in section #.3 of this exhibit. The Prepayment Credits reflect the value of electricity attributable to the Prepayment(s) made by «Customer Name» for each month as set forth in the Prepayment Credit Schedule(s) provided in section #.3.1 of this exhibit. Prepayment Credits are associated with and reflect the right of «Customer Name» to receive delivery of a specified value of electricity from BPA each month. The Prepayment Credits are the dollar amounts that a customer making a electric power prepayment under a Prepay RFO (Prepaying Customer) would have paid in the related month but for the amount it prepaid, and are reductions to the

amount that otherwise would be payable with respect to the Prepaying Customer's purchases of electricity from BPA.

#.2 Effective Date and Termination of Prepay Obligations

Drafter's Note: If the customer participates in more than one prepayment program, the revision number and the year of the Prepay RFO in following paragraph should reflect the most recent year that the customer participated in a prepay program.

This Revision No. «#» to Exhibit D was executed by «Customer Name» in connection with its submission of one or more offers to purchase Blocks under the «Year» Prepay RFO and was subsequently executed by BPA after inclusion of the Prepayment Amount and Prepayment Credit Schedule derived under the offer(s) and acceptance thereof by BPA under the «Year» Prepay RFO. Prior to BPA's execution of this Revision No. «#» to Exhibit D, BPA provided the Prepayment Amount and Prepayment Credit Schedule, included in section #.3.1 of this exhibit, to «Customer Name» for review to assure that the Prepayment Amount and Prepayment Credit Schedule are consistent with the offer(s) by «Customer Name» and the acceptance thereof by BPA under the «Year» Prepay RFO.

Drafter's Note: If customer participates in more than one prepayment program, insert additional appropriate date and "«Year» RFO".

The provisions under this section #, shall take effect upon the receipt by BPA of the Prepayment Amount and shall remain in effect until all obligations hereunder are satisfied; provided, however, that, if (1) BPA for any reason does not receive the Prepayment Amount on or before «date», which is the "Prepayment Deadline" as defined in the «Year» Prepay RFO, or (2) the obligations of «Customer Name» to provide the Prepayment Amount and the obligations of BPA to provide Prepayment Credits are terminated under the provisions of the «Year» Prepay RFO and the contract formed thereunder, then the provisions of section # of this exhibit shall have no future force or effect.

#.3 Obligation to Provide Prepayment Credits/Remit Cash Payments

#.3.1 Scheduled Prepayment Credits

Upon receipt by BPA of the Prepayment Amount from «Customer Name», BPA shall provide to «Customer Name» Prepayment Credits throughout the remaining term of this Agreement as provided under the following Prepayment Credit Schedule:

«Customer Name»’s Prepayment Credit Schedule Under the «Year» Prepay RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013	N/A	N/A	N/A	N/A	N/A	N/A							
FY 2014-2028													

Note: The prepayment program offered in 2012 only allowed for equal Prepayment Credits every month from April 2012 through the remaining term of the Agreement.

Drafter’s Note: Include the following for customers that participate in more than one year of Prepay Programs. If the customer participates in a subsequent prepay program, the table below should be filled in to represent the prior Prepayment Credit Schedule(s) that is included in section #.3.1 below.

«Customer Name» previously has made one or more Prepayments to BPA in return for the right to purchase electric power from BPA pursuant to this Agreement, represented by monthly Prepayment Credits for Fiscal Years 2013 through 2028 as follows:

«Customer Name»’s Pre-Existing Prepayment Credit Schedule Under the «Year» Prepay RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013													
FY 2014-2028													

Note: «Insert any information needed specific to the subsequent Prepay RFP Prepayment Credit Schedule»

End Option

In certain circumstances BPA shall remit cash to «Customer Name» as provided in section #.3.2 of this exhibit. Prepayment Credits that are not otherwise applied shall carry forward to future months as provided in section #.3.3 of this exhibit.

So long as the amount of «Customer Name»’s monthly bill exceeds the monthly amount of the Prepayment Credit, then «Customer Name» shall pay BPA the net amount due after the Prepayment Credit is applied, consistent with the billing and payment terms and conditions of section 16 of the body of this Agreement.

#.3.2 Deemed Assignments Where Prepayment Credits Are Greater Than Monthly Amount Owed

If the amount of «Customer Name»’s monthly bill for electric power is less than the month’s Prepayment Credit (including any Carry Forward Prepayment Credit described in section #.3.3 of this exhibit), which shall be called Excess Prepayment

Credit, then BPA shall apply the methodology set forth in section #.3.5 of this exhibit to (1) deem the Excess Prepayment Credit to be assigned to other customers' electric power purchases from BPA in such month and (2) to the extent of such deemed assignments, remit as a cash payment to «Customer Name» an amount equal to the Excess Prepayment Credit.

#.3.3 Carry Forward of Prepayment Credits

- (1) In the event that electric power purchases from BPA by other customers in an applicable month are insufficient to enable deemed assignments of all Excess Prepayment Credits of all Prepaying Customers with respect to that month under section #.3.2 of this exhibit, the excess representing «Customer Name»'s share (Carry Forward Prepayment Credits) shall accumulate. In each succeeding month, after applying the scheduled Prepayment Credit *«Drafter's Note: if customer is participating in more than one prepayment program, add an "s" to Credit»* under section #.3.1 of this exhibit, BPA shall either (a) apply «Customer Name»'s Carry Forward Prepayment Credits to «Customer Name»'s purchases of electric power from BPA during that month, or (b) give effect to deemed assignments of «Customer Name»'s Carry Forward Prepayment Credits that become Excess Prepayment Credits with respect to that month to the extent set forth in section #.3.2 of this exhibit.
- (2) The crediting and the remittance of cash by BPA under section #.3.3(1) of this exhibit shall continue until such time as the balance of Carry Forward Prepayment Credits and Excess Prepayment Credits for «Customer Name» is zero. BPA's obligations in this section #.3.3 shall survive the termination or expiration of this Agreement and upon termination or expiration of this Agreement shall continue in effect with respect to future power sales by BPA, including to «Customer Name» and shall constitute a wholly independent obligation of BPA in consideration of its receipt of the Prepayment Amount.
- (3) BPA shall have no obligation to compensate «Customer Name» for any actual or implied cost of funds or the time value of money arising from the occurrence, accumulation, application, deemed assignment or use of

Carry Forward Prepayment Credits or Excess Prepayment Credits.

- (4) In no event shall BPA be required to remit cash payments to «Customer Name» if, for any reason, «Customer Name» does not use its Prepayment Credits and BPA is unable to assign resulting Excess Prepayment Credits to other customers as set forth in this section #.

#.3.4 Remittance of Cash by BPA

BPA shall remit cash payments to «Customer Name» under sections #.3.2 and #.3.3(2) of this exhibit via an electronic funds transfer by the applicable bill's Due Date as it is defined in section 16.2 of the body of this Agreement.

#.3.5 Methodology for Deeming Assignments of Excess Prepayment Credits to Other Customers

Applying the principles set forth in this section #.3.5, BPA shall make deemed assignments of Excess Prepayment Credits to other customers only to the extent that such other customers' cash payments for electric power purchases from BPA during the applicable month are greater than or equal to the aggregate of all Excess Prepayment Credits attributed by BPA to «Customer Name» and to other Prepaying Customers for the applicable month.

(1) Deemed Allocations Only to Non-Prepaid Purchases of Electric Power

Excess Prepayment Credits shall not be deemed to be assigned to any customer with respect to electric power purchased by that customer from BPA pursuant to any prepay contract.

(2) Deemed Allocations Only to the Extent of Payments Actually Received by BPA

Excess Prepayment Credits shall be deemed to be assigned to other customers only to the extent such other customers in fact have made payment to BPA on or before [the last day of the following calendar month].

(3) Qualified Utilities

For purposes of this section #.3.5, a Qualified Utility shall be defined as a public body that is served by BPA and that has a retail service area that the public body has served continuously for at least five consecutive years, as of «date of «Customer Name»'s first prepayment».

- (a) If «Customer Name» is a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other Qualified Utilities, then to other electric power customers that are not Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received by BPA from purchases of electric power from BPA from all such customers in the applicable month.
- (b) If «Customer Name» is not a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other customers that are not Qualified Utilities, then to Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received by BPA from purchases of electric power from BPA from all such customers in the applicable month.

(4) **Allocation of Deemed Assignments Among Prepaying Customers**

If the aggregate amount of Prepayment Credits for a month exceeds the aggregate amount paid by other customers to which those Prepayment Credits might be deemed assigned pursuant to section #.3.2 or section #.3.3 of this exhibit, then:

- (a) purchases by customers that are Qualified Utilities but not Prepaying Customers shall first be allocated pro rata to Excess Prepayment Credits of Qualified Utilities;
- (b) purchases by customers that are not Qualified Utilities and not Prepaying Customers shall first

be allocated pro rata to Excess Prepayment Credits of non-Qualified Utilities; and

- (c) any remaining purchases by customers that are not Prepaying Customers shall be deemed assigned pro rata to the Excess Prepayment Credits remaining after applying section #.3.5(1) and section #.3.5(2) of this exhibit.

#.4 Rights and Remedies

#.4.1 Withholding Performance

No provision in this section # shall allow or shall be interpreted to allow BPA to cease, suspend or withhold: (1) delivering electric power otherwise required to be delivered pursuant to this Agreement; (2) application of Prepayment Credits as described in sections #.3.1 and #.3.3 of this exhibit; (3) deemed assignments as described in sections #.3.2 and #.3.3 of this exhibit; or (4) remitting cash to or for the account of the Prepaying Customer as described in sections #.3.2 and #.3.3 of this exhibit.

#.4.2 No Refunds or Schedule Alterations

«Customer Name» shall have no right to a refund of any amount or balance remaining of its Prepayment Amount if this Agreement is terminated prior to September 30, 2028, pursuant to section 25 of the body of this Agreement. «Customer Name» may not alter the schedule of its Prepayment Credits.

#.4.3 Money Judgments, No Acceleration

As set forth in section 22.4 of the body of this Agreement, money damages are the exclusive remedy available in the event BPA should fail to perform any of its obligations under this Agreement, including any failure by BPA to perform its obligations under this section #. In no event may «Customer Name» cause any of BPA's obligations under this section # to come due prior to the date specified (for example, the customer may not seek, as a remedy, to have BPA give effect to Prepayment Credits prior to the Dates specified herein.). BPA's breach or non-performance under the provisions of this section # shall not lead to an acceleration of any kind of the future remaining performance of BPA's cash payment or crediting obligations hereunder. The provisions of this section # shall not be interpreted to affect other obligations under this Agreement except as specifically provided herein.

- #.5 No Guarantee by BPA of Any Bonds or Other Debt**
Nothing in this Agreement establishes or shall be interpreted to establish a guarantee of the payment of principal of or interest on any bonds or other debt issued by or for the benefit of «Customer Name» to fund its Prepayment Amount or to refund or refinance such debt. If bonds are issued to fund a Prepayment, disclosure materials are prepared with respect to those bonds, and those disclosure materials include a description of the provisions in this section #, then those disclosure materials also shall include the following statement: *“The [Bonds] are not a debt or other obligation of Bonneville Power Administration, and the [Bonds] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund.”*
- #.6 No Third Party Beneficiaries, Limited Right to Assign**
There are no third party beneficiaries to this section #, provided, however, «Customer Name» may pledge or otherwise grant a security interest in BPA’s remittances of cash reflecting (1) BPA’s deemed sales of electric power for the account of the «Customer Name» described in sections #.3.2, #.3.3 and #.3.4 of this exhibit, and (2) money damages arising from any breach by BPA of its obligations under this Agreement. However, «Customer Name» shall not assign its claims under the provisions of this section # or enter into any agreement that in any manner purports to provide to a third party a right to bring any legal action against BPA, to enforce the rights of «Customer Name» under the provisions of this section # against BPA. If «Customer Name» purports to make such an assignment or agreement, it shall have no effect.

ATTACHMENT D

MATERIALS FROM REGIONAL TEAM MEETINGS

Prepay Regional Team Meeting #1

December 8, 2011
11am-1pm

Held at the office of: Orrick, Herrington & Sutcliffe LLP, in Seattle, Washington
701 5th Avenue, Suite 5600, Seattle, WA 98104-7097

Agenda for Today's Meeting

- **Introduction of the Prepay Regional Team**
 - Utility Members
 - Additional participants
- **Overview**
 - The need for the program
 - Why we are here?
- **BPA's prepay proposal**
 - Overview of the program
 - Principles of a prepay model
 - Structure overview
- **How would a prepay work**
 - Prepay contractual considerations
 - Sample annual cash flows
 - Other considerations
- **Timeline**
 - Major milestones for the regional team
 - Major milestones timeline
- **Next Steps**



Utility Members

<p>Benton PUD Chad Bartram Assistant General Manager bartramc@bentonpud.org 509-582-1202</p>	<p>Bonneville Power Administration Jon M. Dull Manager, Debt and Investment Management, acting jmdull@bpa.gov 503-230-7544</p> <p>Andre Hesser Financial Analyst aghesser@bpa.gov 503-230-3225</p> <p>Robb Roberts Attorney Advisor rfroberts@bpa.gov 503-230-4314</p> <p>Peter Stiffler Industry Economist pbstiffler@bpa.gov 503-230-5660</p>
<p>Clark PUD Rick A Dyer Director of Finance/Treasurer RDyer@clarkpud.com 360-992-3384</p>	
<p>Lewis PUD David Plotz Power Manager davidp@lcpud.org 360-740-2429</p>	
<p>Northwest Requirements Utilities (NRU) Geoff Carr ghcarr@pacifier.com 503-233-5823</p>	
<p>Snohomish PUD Glenn McPherson Asst. General Manager, Finance and Treasurer gsmcpherson@snopud.com 425-783-8356</p> <p>Jim Herring Deputy Treasurer jlherring@snopud.com 425-783-8303</p>	
<p>Tacoma Power Jim Russell Power Management jrussell@ci.tacoma.wa.us 253-502-8395</p> <p>Matt Zehnder Power Analyst mazehnder@ci.tacoma.wa.us 253-502-8686</p>	



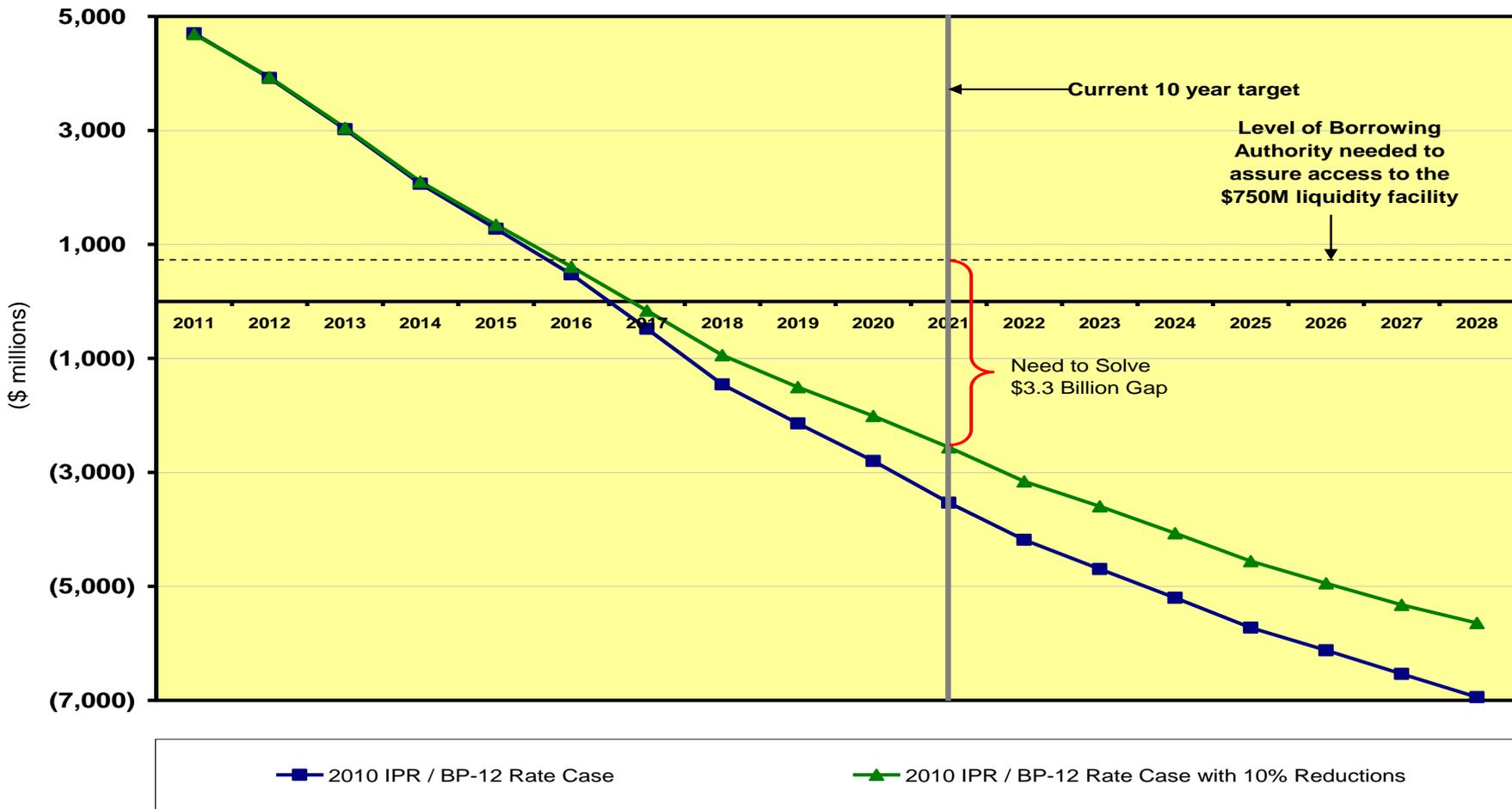
Additional Participants

- To help us achieve objectives, BPA has asked Citibank (Citi) and Bank of America Merrill Lynch (BAML) to:
 - Provide additional resources and expertise to help us work through issues.
 - Help educate the team on a range of issues such as structural constraints and rating agency implications.
- BPA understands that each utility has its own process when selecting underwriters and is not promoting either firm.
- BPA understands that each utility or participant will have its own views and concerns.
 - We will be supportive if you believe it is necessary to invite others (e.g., financial advisor, counsel, others) to subsequent meetings.



The Need for a Prepay Program

Remaining Agency Treasury Borrowing Authority



Why are we here?

▪ Goals of the Regional Prepay Team

- Gain a clear understanding of the prepay framework
- Consider and evaluate electric prepay alternatives that may be of interest and value to the region as an alternative financing arrangement to address access to capital challenges facing Bonneville

▪ The past meetings have established that BPA has limited capital funding capacity – even after incorporating other third party financing methods (lease financing, etc.).

▪ To make up for this shortfall, we are left with four primary alternatives:

- *Reduce Capital Program:* As discussed at our November 18 Strategic Capital Discussion, significant reduction of the pre-2016 capital program raises considerable reliability issues for the system.
- *Increasing Transmission Lease Financing:* As presented on November 18, BPA has raised its forecast of eligible projects to 25% of the Transmission capital program and is looking for opportunities to increase it to 30%.
- *Increase Revenue Financing:* As presented on November 18, the “pay-as-you-go” nature of this option has the largest impact on rates.
- *Initiate an Electric Prepay Program:* Provides BPA with a fixed cost of capital through the end of the current power sales agreement term (2028) – functions similar to debt from the standpoint of all BPA customers.
- A combination of the above.

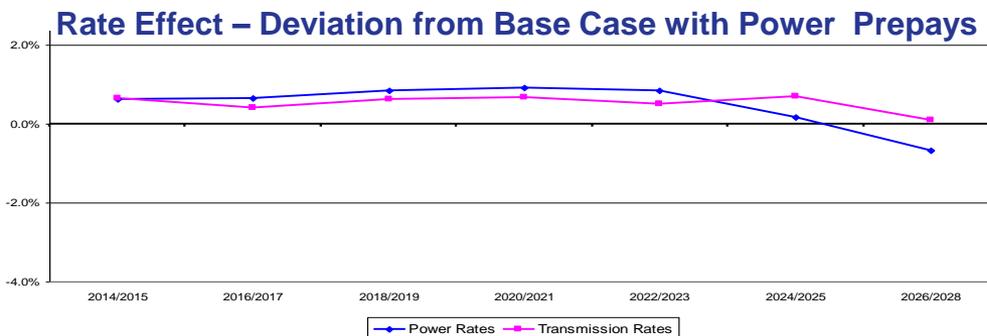
▪ We would like to target as much as \$1.7+ billion of customer prepay between FY2013 and FY2016

- From multiple utilities
- Timed to coincide with capital spending needs



Overview of a Prepay Program

1. A prepay program would provide a mechanism for BPA to raise cash to be used for power-related capital costs
2. Additional benefits of electric prepays for BPA and the region include:
 - Creating a new long-term capital funding source that provides BPA with cash in advance of exhausting Treasury borrowing authority.
 - Preserving Treasury borrowing authority.
3. The program provides equitable treatment for customers.
 - Looks like any other BPA liability (Treasury borrowing, lease agreements, etc.) from the perspective of BPA customers.
 - “Debt service” is paid via a credit on the prepaying customer’s monthly bill.
4. BPA will provide an incentive for customers to participate in a prepay program.
 - After the prepayment is made to BPA, subsequent power bills would show reductions due to the credits (under a fixed, agreed-to schedule) that in aggregate equal the amount of the prepayment plus an imputed discount.
 - If a utility issues debt to fund the prepayment the prepay credit will equal debt service plus an incentive to participate.
 - If a utility uses cash to fund the prepayment, it would receive a similar credit, effectively providing a relatively high yielding return on its cash contribution.
5. Prepay program may be rate neutral.



Principles of a Prepay Model

1. **Fixed credit/adjustable price:** A prepay transaction locks in a credit, not power prices. BPA's future rates may go up or down, but the customer will always receive a fixed credit on the prepaid portion of their bill equal to the prepay bond debt service (if applicable) plus an incentive.
 - BPA is mandated to recover its costs from customers and bases its power rates on this mandate. Therefore, BPA cannot lock a fixed power purchase price to recover its future costs when we do not know those costs.
 - BPA believes that any prepay program should maintain equity among participants and non-participants; a fixed price would violate this goal.

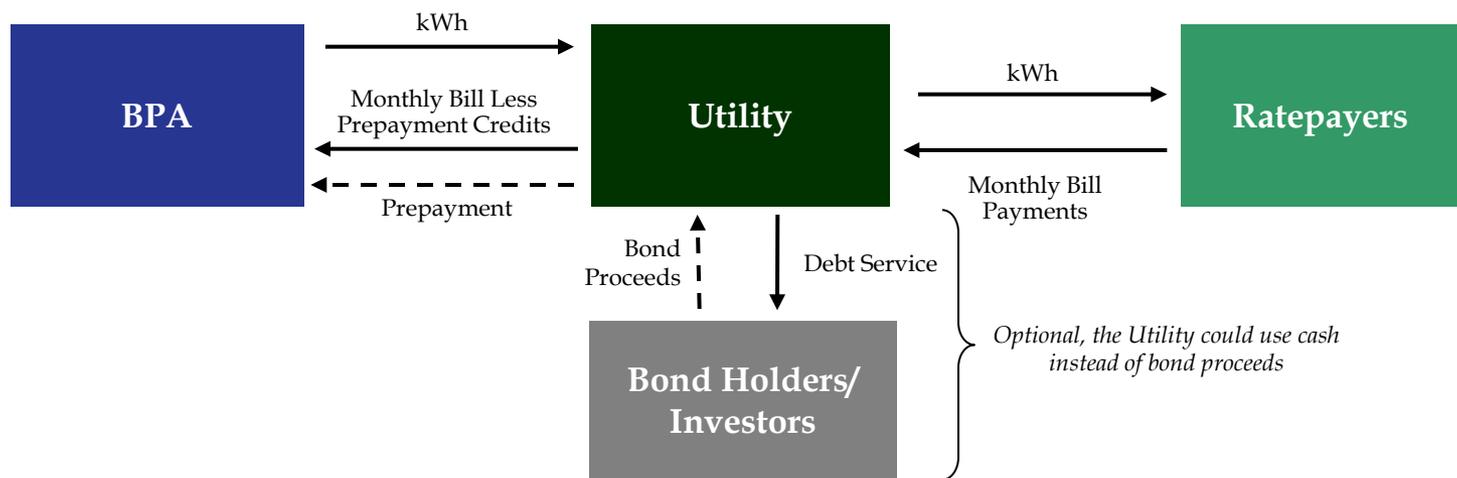
2. **Consistent with existing Regional Dialogue contracts:** A prepay transaction should fit within existing Regional Dialogue contracts and does not constitute an "assignment" of power sold at a Tier 1 rate, which may trigger the Tiered Rates Methodology voting process or a 7(i) process.

3. **Placement of credits:** BPA has limited degrees of freedom in terms of when credits can be paid and needs to define the timing of credits to minimize the impacts to future revenue requirements.
 - BPA will minimize rate impacts by timing credits using repayment study and revenue requirement analysis.
 - The precise timing mentioned above means that the credit stream should be considered fixed and are not liquid.



Structure Overview

- Customers would agree to prepay BPA for future delivery of power consistent with existing Regional Dialogue contracts.
- A utility would use cash on hand or issue bonds and use the proceeds to pre-purchase energy through 2028 and in return receive credits on future bills to reflect the prepayment.
- BPA would continue to bill monthly for the power delivery with an established credit for each month under an agreed schedule, on the portion of power that is prepaid. BPA is not segmenting the power sales.
- BPA will require a private letter ruling from the IRS regarding tax exemption – if tax exempt municipal bond proceeds would be used for the prepayment.
- BPA gains access to funds to make power investments.



Prepay Contractual Considerations

- Customer would prepay a portion of its power bill at Tier I for requirements power but it is not tied to any specific amount of power service.
- BPA would agree to a schedule of fixed monthly reductions or credits to the billing amounts payable under the customer's power bills as a separate line item.
 - A power bill would show the amounts that otherwise would have been due without the prepayment, less that month's adjustment for the prepayment.
- The prepayment adjustments would include a time-value-of-money component negotiated between BPA and the customer.
 - The amount would be undifferentiated in the sense that it would be implicitly included in the scheduled credit amounts.
- The shape of the credits may not be level. The credits would likely be matched to debt service on bonds, if any, that the customer issues to fund the prepayment.
- The prepayment amount would be kept low enough that it would be highly likely that the customer's power bill would always be sufficient to utilize all of the credits on a current-month basis.
 - The maximum credit capacity could be set at up to 50% of BPA's expected future power billings through the end-date of the customer's power sale agreement. although some analysis of the customers' retail loads may also be involved if they have large retail customers whose loads could be reduced or disappear.
- In the unlikely event that the customer's purchases of power proved insufficient to use the credits on a current month basis, the credits will roll over and accumulate for a defined period (6 months).
 - If, at the end of the accumulation period, there is still a balance of accumulated credits, BPA would become obligated, unconditionally, to pay cash to the customer in an amount equal to the balance of the accumulated-but-unused credits.
 - The customer would be compensated for the time value of money arising from the delay in receiving its credits.
- The conversion to cash-payments-in-lieu-of-credits could happen for a couple of unlikely reasons that may have risk implications for the customer. (Note: a credit-to-cash conversion could also happen if BPA's rates declined substantially)



Sample Annual Cash Flows

	A	B	C	D	E	F
				(A+B+C)	(A-D)	(NPV of E)
	Prepaid Portion of Power Bill	Prepay Bond Debt Service	Credits to Power Bill	Net Cost of Power	Incentive to Utility	PV Savings to Utility
1/1/2015	25,000,000	23,807,350	(25,000,000)	23,807,350	1,192,650	1,156,238
1/1/2016	25,000,000	23,806,750	(25,000,000)	23,806,750	1,193,250	1,121,501
1/1/2017	25,000,000	23,805,500	(25,000,000)	23,805,500	1,194,500	1,088,400
1/1/2018	25,000,000	23,807,750	(25,000,000)	23,807,750	1,192,250	1,053,183
1/1/2019	25,000,000	23,806,750	(25,000,000)	23,806,750	1,193,250	1,021,885
1/1/2020	25,000,000	23,806,000	(25,000,000)	23,806,000	1,194,000	991,309
1/1/2021	25,000,000	23,808,750	(25,000,000)	23,808,750	1,191,250	958,830
1/1/2022	25,000,000	23,808,000	(25,000,000)	23,808,000	1,192,000	930,142
1/1/2023	25,000,000	23,807,000	(25,000,000)	23,807,000	1,193,000	902,500
1/1/2024	25,000,000	23,808,750	(25,000,000)	23,808,750	1,191,250	873,663
1/1/2025	25,000,000	23,806,000	(25,000,000)	23,806,000	1,194,000	848,945
1/1/2026	25,000,000	23,806,750	(25,000,000)	23,806,750	1,193,250	822,509
1/1/2027	25,000,000	23,808,500	(25,000,000)	23,808,500	1,191,500	796,228
1/1/2028	25,000,000	23,808,750	(25,000,000)	23,808,750	1,191,250	771,756
	350,000,000	333,302,600	(350,000,000)	333,302,600	16,697,400	13,337,087

Rates as of 11.28.11- 8 year average life

- \$25 million of utility bill prepaid annually
- Provides \$266 million of proceeds to BPA
- Underlying utility rating: A1/A+/A+
- Utility tax-exempt borrowing cost: 3.15%
- Annual cash flow savings vs. debt service: 5.00%
- BPA prepay all-in-rate: 3.88%
- BPA 7 year agency rate: 1.97%



Other Considerations (Please See Additional Handout)

Principles of a Prepay Model (please see page 8)

- ✓ *Fixed credit/adjustable price*
- ✓ *Consistent with existing Regional Dialogue contracts*
- ✓ *Placement of credits*

The Program

- ✓ Use of funds
- ✓ Size of program

Inclusion of Customer Participants

- ✓ RFP process
- ✓ Level of incentive
- ✓ Uniform vs. risk adjusted (e.g., BPA vs. Utility risk)
- ✓ Intra vs. inter-rate period
- ✓ Regional equity issues

Prepay Structure

- ✓ Form of Prepay Agreement
- ✓ Utility vs. conduit
- ✓ Applicability of JOE
- ✓ Tax exempt (Private Letter Ruling)

Utility Specific Issues

- Rating agency implications
 - Prepayment Bonds
 - Other Bonds
- Likely use of Junior/ Subordinate Lien
- Balance sheet treatment
- O&M treatment of credit/existing bond documents

BPA Specific Issues

- ✓ No termination payment
- ✓ No partial termination payment (changes in load structure)
 - Effect on other BPA debt



Major Milestones for the Regional Team

Program Education, Development and Acceptance (Today- January 2012)

1. Explanation of why BPA wants access to this tool and how it will benefit the region
2. Develop the basic framework of an electric prepay
3. Establish a set of principles for a BPA prepay
4. Construction of contractual points and framework for a prepay

Program Design (January 2012 – March 2012)

5. Jointly or independently conduct discussions with counsel (tax and local) and accountants regarding impact of potential structures
6. Design and vet a structure to be used for the first prepay transaction
7. Establish a process for identifying participants and their level of participation (i.e., RFP process)
8. Regional comment period on proposed structure and evaluation
9. Conduct discussions of proposed structure with the rating agencies for preliminary review

March Deliverables: “Go- no go” recommendation

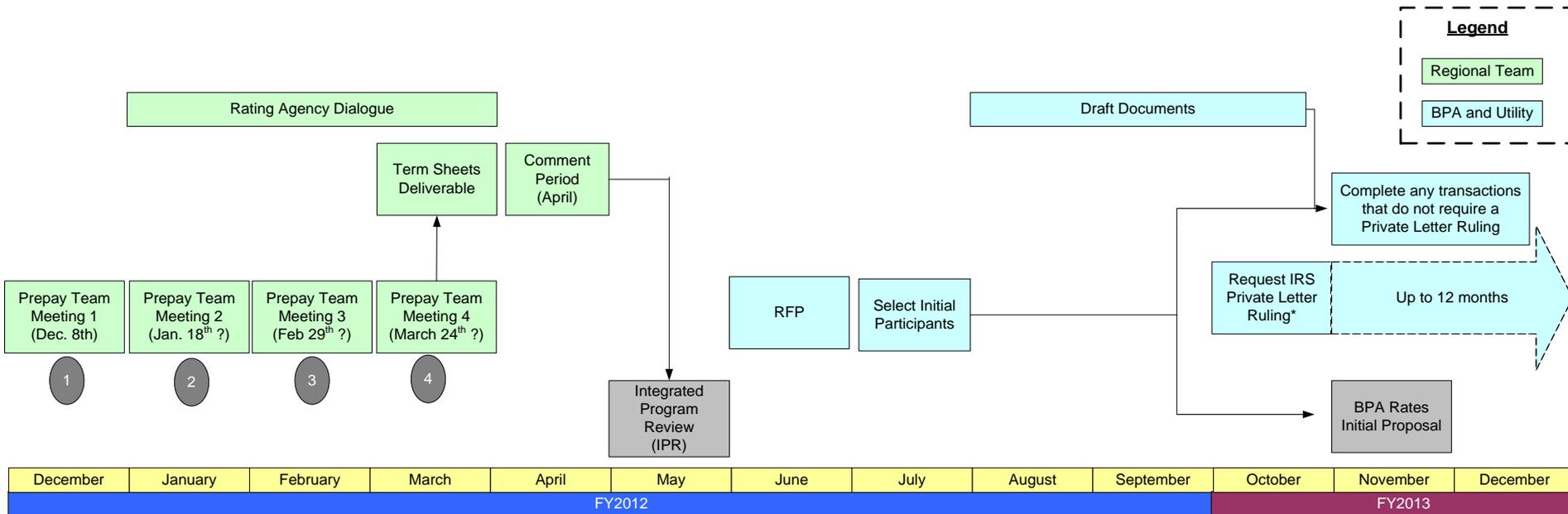
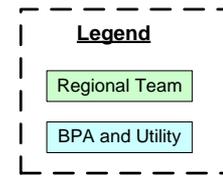
10. *Financing structure and prepay agreement term sheets*
11. *Short list of potential prepay participants*

Documentation & Deal Execution (March 2012 – October 2012)

12. Conduct process to select 2013/14 participants
13. Select single entity to proceed with the IRS letter ruling
14. Draft all agreements associated with the proposed structure
15. Conduct any transactions that are not dependent on tax-exempt municipal bond issuance
16. Request / obtain private letter ruling from the IRS
17. Receive final ratings, finalize documentation and price bonds
18. Close first transaction and prepay BPA



Major Milestones Timeline



* Assumes that a customer issues bonds to fund the power prepayment

Meeting Objectives

- 1** (1) Set principles and base structure (2) Determine threshold issues/negotiation points
- 2** (1) Review alternative structure and ratings impacts/requirements (2) Discuss incentive/equity issues/terms of prepay amendment (3) Review initial tax exemption issues
- 3** (1) Review initial term sheets for prepay amendment and financing structures (2) Continue review of tax exemption/rating agency issues (3) Continue discussion of incentives/mechanics (4) Discuss RFP process
- 4** (1) Finalize term sheets/RFP process (2) Complete vetting of tax exemption, accounting and rating agency issues



Next Steps

- Establish a date for the next meeting
- Incorporate other team members and additional resources
- Determine how we want to move forward
 - Sub-teams or the full working group
- Continue to identify prepay considerations
- Continue conversation on identified considerations and BPA's proposals
- BPA will propose a rating agency strategy



Key Points

Customer Power Prepayment

Context:

BPA has laid out a preliminary framework of the prepay program. This framework has three principles:

1. The program is based upon a fixed credit/adjustable rate
2. The program is implemented with and consistent with the existing Regional Dialogue contracts
3. Credit shape and timing will be established at contract signing and be consistent with repayment criteria as well expected future purchases.

There are other issues and questions that will need to be considered and evaluated by the regional team. BPA would like to use the regional team to help identify these considerations. Below is a list of currently identified considerations and BPA's initial response.

Category: The Program

Issue 1: What amounts can customers prepay?

Response: BPA is proposing that customers can prepay for a portion not greater than 50% of their expected power purchases from BPA under their existing Regional Dialogue Contract High Water Mark (CHWM) power sales contract.

Issue 2: Is BPA offering new power sales contracts?

Response: No, BPA is not offering a new contract but is proposing a prepayment and a credit on the customer's power bill which is implemented by offering an amendment to the payment terms of existing CHWM power sales contracts.

Issue 3: Are the prepayment funds used for Power Capital spending?

Response: Power prepayments would be used to fund Power-related capital investments and to pay down callable Treasury to free up new Treasury borrowing for Power-related investments

Issue 4: Can the Customer ask that prepayment funds be allocated to specified projects or categories of spending?

Response: BPA will not offer contract terms on allocation of or use of prepayment funds. BPA believes there are adequate processes in place for customers to provide input on specific capital investments and that allocating prepayment funds to specific projects would provide prepayment customers influence not available to non participants.

Issue 5: How will the size of the prepay program be determined?

Response: Initially, the size of the prepay program will be determined by the amount and timing of the near-term capital need for power investments and identifying the

potential and cost to call bonds issued to Treasury, the early payment of which would replenish access to Treasury borrowing to fund power investments. The size of an ongoing program, if any, would be determined at a later time.

Category: Inclusion of Customer Participants

Issue 6: How frequently will BPA issue a Request for Proposals (RFP) for utilities interested in prepaying?

Response: To minimize prepay workload for BPA and customers, BPA proposes that prepay RFPs would generally occur every 2 years and precede rate cases. This will allow BPA to include the prepay program customer credits in revenue requirements.

Issue 7: Which customers would be eligible to participate in the prepay program?

Response: The prepayment program is open to all customers that can meet a minimum prepayment threshold. BPA is proposing a minimum threshold of a \$100 million prepayment and is interested in feedback on this threshold. Please note, BPA is also proposing a threshold that would preclude a customer from prepaying more than 50% of its estimated aggregate future power purchases under the Regional Dialogue long-term contracts.

Issue 8: In the event that an RFP is over subscribed, how will customer participation be determined?

Response: Under current thinking, selection of proposals will be based primarily on the lowest all-in-cost to minimize rate impacts. As the process and arrangements evolve, it is possible that other evaluation criteria may become necessary.

Issue 9: If a customer responds to the RFP and commits to a prepay, is it required to fund it?

Response: Since the level of prepayment will likely effect BPA's capital access decisions, a commitment to fund a prepay should be viewed as a firm contract obligation requiring customers to fund the prepay within that rate period.

Issue 10: How will financial incentives be determined?

Response: BPA is proposing to use a risk adjusted financing structure. Every 2 years, BPA will issue an RFP soliciting interest by customers in participating in the prepay program. In the RFP, each responding customer will be asked to submit an incentive expressed in terms of basis points above the cost of funds that it will require to participate. Once BPA knows the proposed incentive required by each utility and evaluates the utility's potential cost of funds, BPA will work with its Financial Advisor to rank the proposals on the basis of the all-in-cost of the transaction.

Issue 11: Will proposing utilities bear the risk of the cost of funds?

Response: No, under current thinking, since BPA will award participation based on the discount required by the utilities and its forecast of the utilities' borrowing costs BPA would be taking on the risk of an adverse movement in interest rates or the interest rate

environment that may occur between the date of the award to the date of issuance of bonds by the customer.

Issue 12: What if a utility wants to use cash on hand to fund the prepayment?

Response: To provide consistency in compensating utilities for their cost of funds, BPA is considering that customers include an imputed cost of funds in the proposal and the proposed incentive discount.

Issue 13: Will BPA use a uniform financing structure that offers an interest rate for prepays funded with customer's cash on hand versus the risk-adjusted structure described above? For example: Is BPA willing to provide a fixed rate of 7% on customer prepayments.

Response: BPA has elected to take on the risk of intervening interest rate changes between the date of award and the date of debt issuance in order to increase participation. Eliminating this risk to customers will focus the RFP on the incentive discount that customers require.

Issue 14: Will BPA offer a higher incentive to utilities that are willing to prepay a greater amount?

Response: BPA will use various factors in evaluating responses to the RFP including the amount a utility is willing to prepay but will not offer a proportionately higher incentive to customers who propose to fund a larger prepayment. The prepayment incentive is based on each dollar prepaid, thus the more a customer prepays, the greater the dollar amount of the incentive it will receive.

Issue 15: Will BPA's incentive change from one RFP to another?

Response: BPA will issue a new RFP prior to each rate case and the incentives will be determined through that process. It is possible that the incentives will change since the incentive depends on responses to each RFPs.

Issue 16: Will BPA's incentive change within a rate period?

Response: No, under the current proposal, once the RFP process is complete, BPA will assume the agreed-to incentives in developing its rate proposals. By contrast, in developing its rate proposal BPA may have to make a forecast of the cost of funds component depending on the timing of the issuance of any prepay bonds by participating utilities.

Issue 17: Will there be different incentive amounts for different participating utilities within an RFP?

Response: No, under the current proposal, all participating utilities will receive the incentive agreed to as we evaluate proposals, but the total all-in-cost to BPA may differ due to different borrowing costs a utility may have. BPA is proposing to take a clearing approach to determining the incentive by ranking (based on all-in cost) all proposals. If

more capacity is offered than needed, the highest incentive proposed among the proposals with the lowest all-in cost will be the incentive used for all accepted proposals.

Category: Financing Structure

Issue 18: If a utility chooses to fund the prepayment by issuing bonds, who would issue the bonds?

Response: The current proposal would be for each individual utility to issue the bonds to fund its prepayment.

Issue 19: Is BPA open to a utility's using a conduit to issue bonds to fund the prepayment?

Response: BPA is probably indifferent as to how a customer funds its prepayment as long as it fits into the framework of the existing Regional Dialogue power sales contracts. While BPA is willing to agree to limited amendments to existing contracts through Exhibit D, BPA believes entering into new power sales contracts with conduits would be undesirable. [Under BPA statutes and standards for service BPA can only offer power sales at its PF rate under power contracts to a qualified public body or public cooperative entity, and so the issue would be what are these "conduit" entities? See section 4 and 5 of the Bonneville Project Act and Section 5a of the Northwest Power Act.]

Issue 20: In order to minimize the impacts to the utilities' financial metrics, is BPA open to a Joint Operating Entity (JOE) made up of existing utilities entering into a prepay and issuing bonds to fund the prepayment?

Response: BPA does not wish to pursue this option at this time for the following reasons: 1) JOEs eligible to participate in the prepay would be limited to entities formed prior to September 22, 2000 and JOE membership is limited to preference customers of BPA prior to January 1, 1999 ; 2) The Tiered Rates Methodology voting process or a 7(i) process may be triggered due to customers' having to assign their Tier I power to the JOE; 3) rating agencies have indicated that they may include off balance sheet transactions in a utility's Debt Service Coverage Ratios and other financial metrics so the structural value to the customers may be diminished.

Issue 21: Why does BPA believe a private letter ruling from the IRS would be required for tax-exempt financing?

Response: BPA believes that a private letter ruling from the IRS should be obtained in conjunction with the first prepayment to Bonneville that uses tax-exempt proceeds. Bonneville, in concert with a participating, bond-issuing customer, will undertake to obtain the ruling and Bonneville will bear all costs. BPA wants to assure that a favorable ruling, if obtained, is available programmatically to all participating exempt issuers in the prepay program. Precedent was set for tax-exempt financing in 2003 with the Memphis Gas & Light/Tennessee Valley Authority (TVA) power prepayment. The Memphis Light/TVA deal was similarly structured with a fixed credit stream and a variable price component. BPA has been advised by its tax counsel that it is no entirely clear whether or not that transaction would qualify for tax-exempt financing today.

Category: BPA Specific Issues

Issue 22: If a customer issues bonds, will BPA guarantee the bond payments?

Response: No. That would cause any related bonds to lose any potential for tax exemptions since the bonds would be federally guaranteed. In addition, BPA is structuring the prepayment to be assured that it is a prepayment-for-a-discount type transaction.

Issue 23: What happens if a participating utility's loads decrease, will a partial termination of payments occur?

Response: No. As currently envisioned, in the low probability of a customer's load dropping to a level where its monthly credits are greater than its BPA power monthly billings, BPA is proposing that such credits will accumulate without interest for up to 6 months. If the bills do not thereafter increase to the level where the credits can be applied in full, then BPA will begin making cash payments to the utility in the amount of the accumulated-but-unused credits. This cash payment will probably be on a rolling period and timed with the utilities' debt service payments to bond holders.

Prepay Regional Team Meeting #2

January 18th, 2012
11am-2pm

Held at the office of: Tacoma PUD
3628 S 35th St, Tacoma, WA 98409-3115

Agenda for Today's Meeting

- **Update of the regional team members**
- **Comparison of prepay solution to existing alternatives**
- **Term sheet discussion**
- **Timeline update**
- **Next Steps**



Update to Regional Team

<p>Benton PUD Chad Bartram Assistant General Manager bartramc@bentonpud.org 509-582-1202</p>	<p>Eugene Water & Electric Board (EWEB) Cathy Bloom Financial Services Manager Cathy.BLOOM@eweb.org 541-685-7150</p>
<p>Clark PUD Rick A Dyer Director of Finance/Treasurer RDyer@clarkpud.com 360-992-3384</p>	<p>Bonneville Power Administration Jon M. Dull Manager, Debt and Investment Management, acting jmdull@bpa.gov 503-230-7544</p> <p>Andre Hesser Financial Analyst aghesser@bpa.gov 503-230-3225</p> <p>Robb Roberts Attorney Advisor rroberts@bpa.gov 503-230-4314</p> <p>Peter Stiffler Industry Economist pbstiffler@bpa.gov 503-230-5660</p>
<p>Lewis PUD David Plotz Power Manager davidp@lcpud.org 360-740-2429</p>	
<p>Northwest Requirements Utilities (NRU) Geoff Carr ghcarr@pacifier.com 503-233-5823</p>	
<p>Snohomish PUD Glenn McPherson Asst. General Manager, Finance and Treasurer gsmcpherson@snopud.com 425-783-8356</p> <p>Jim Herrling Deputy Treasurer jlherrling@snopud.com 425-783-8303</p>	
<p>Tacoma Power Jim Russell Power Management jrussell@ci.tacoma.wa.us 253-502-8395</p> <p>Matt Zehnder Power Analyst mazehnder@ci.tacoma.wa.us 253-502-8686</p>	



Additional Participants

- BPA has asked Citibank (Citi) and Bank of America Merrill Lynch (BAML) help provide additional resources and expertise to the team but will have limited participation.
- The team agreed that each utility or participant can invited a limited amount of guests (e.g., financial advisor, counsel, others) to meetings when they participate.
- Since the last meeting:
 - Kevin O'Meara from Public Power Council has asked to join the January and February meetings.
 - BPA has asked Doug Brawley from PNGC to represent the regions coops.



Comparison of Prepay Solution to Existing Alternatives



Overview

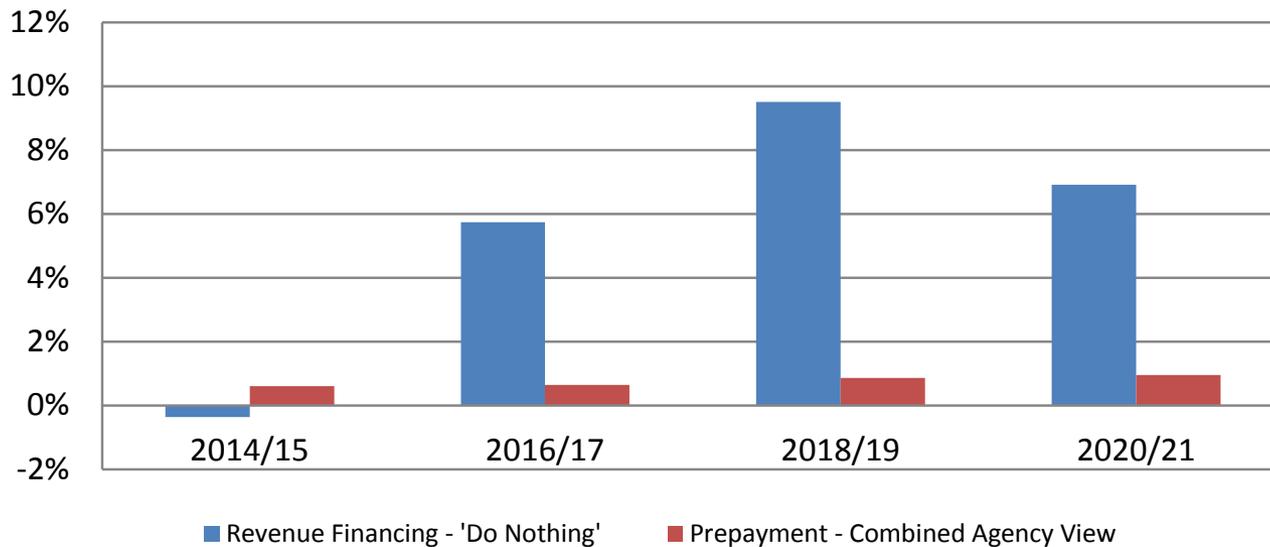
- **December 8th meeting indicated desire to understand rate impacts of the “Do Nothing Case”**
- **If BPA does not a) obtain additional Treasury borrowing authority and/or b) develop new financing tools BPA, will have to**
 - Cut capital spending, and/or
 - Revenue Finance capital spending which exceeds bond amortization once existing borrowing authority is extinguished
- **BPA will reach its Treasury borrowing ceiling in 2016 unless action is taken (assumes reserving \$750M for risk mitigation).**
- **Discussion of capital spending levels is part of the upcoming Capital Review process, NOT prepay discussions**
 - Spending levels should be evaluated on project merits/regional needs
 - Evaluation of capital programs should weigh costs/benefits of projects independent of statutory limitations in BPA’s ability to borrow for Power.
- **New financing tools for Power are needed**
 - Lease financing developed for Transmission (successful, with broad regional buy-in)
 - Financing tools for Power are more fundamentally limited
 - Proven 3rd party financing for Power is limited (ENW and power and conservation acquisitions)
 - BPA has put its efforts in 3rd party financing conservation on hold at this time
 - Given the types of capital needs for Power, the two available funding approaches appear to be Revenue Financing and Prepays



Prepayment is Preferable to Revenue Financing

Power Rate Delta from Base for Revenue Financing and Prepay

(Base assumes 10% Capital Reduction from 2010 IPR, and unlimited borrowing)



- Revenue Financing would produce rates which are 5.7% higher in FY 2016/17, and 9.5% higher in FY 2018/19, than Base Case.**
 - These deltas are *in addition to* base changes in power rates due to anticipated program spending levels, updated secondary revenue forecasts, etc.
- By comparison, Prepayment is relatively rate neutral.**
 - Rate impact averages 0.8% above Base Case through 2021.



The benefits of a Power Prepay

- **Prepayment is relatively inexpensive and preferable to Revenue Financing**
 - The “Do Nothing” case results in unsustainable rate impacts to the Region (previous slide)
 - Cost of prepayment program is expected to be comparable to Lease Financing for Transmission

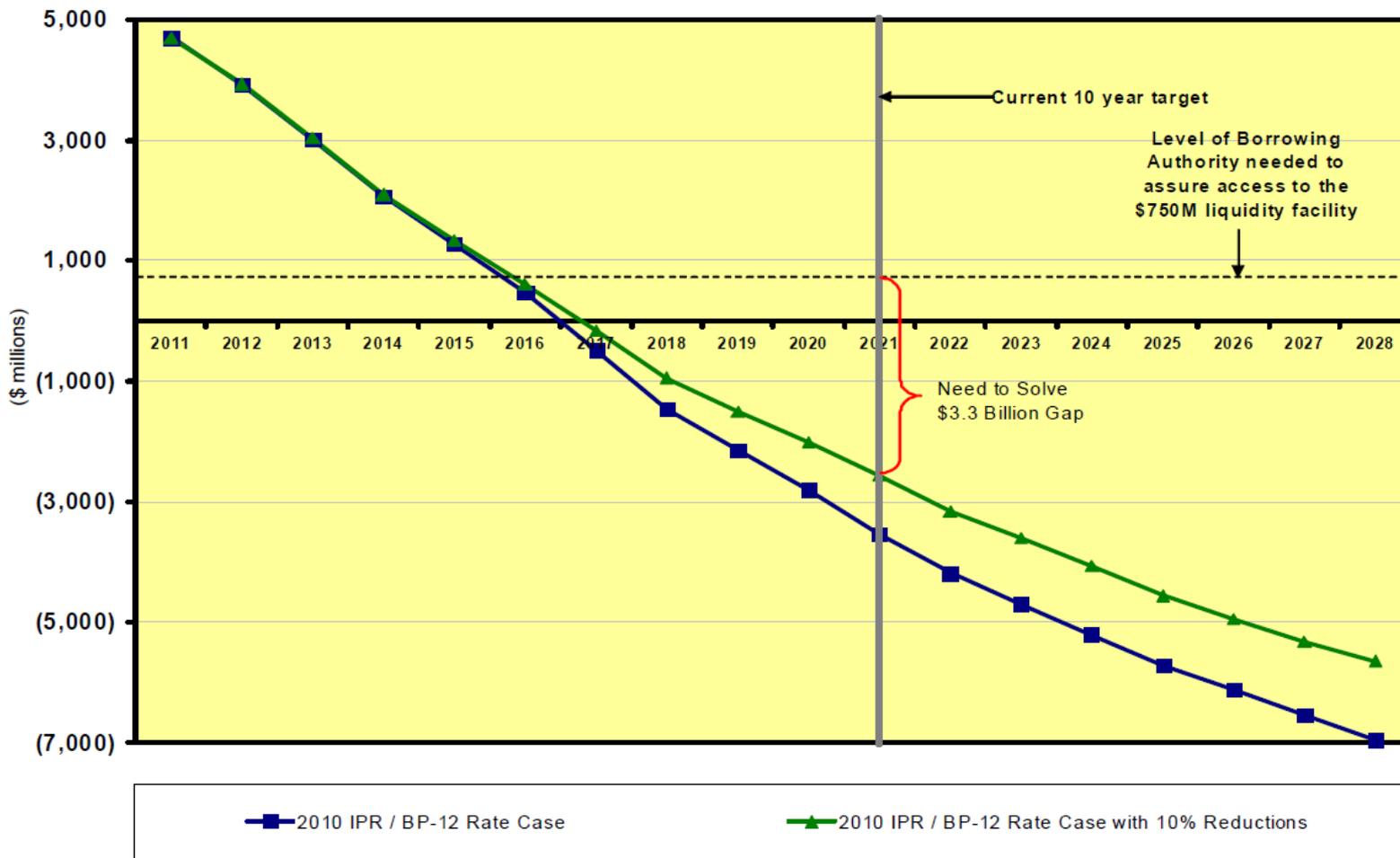
**Estimated All-In Costs Above BPA's Treasury Borrowing Rate
(in basis points)**

	<i>30 years</i>	<i>7 years</i>
Lease Financing (taxable)		
Non-Oregon (no property tax)	95	110-165
Oregon (property tax)	150-220	165-290
Prepays		
Taxable		195-230
Tax Exempt		85-120

Rates as of 6/23/2011



Additional Material: The Borrowing Authority Problem



Addition Material: Revenue Financing

Caveats

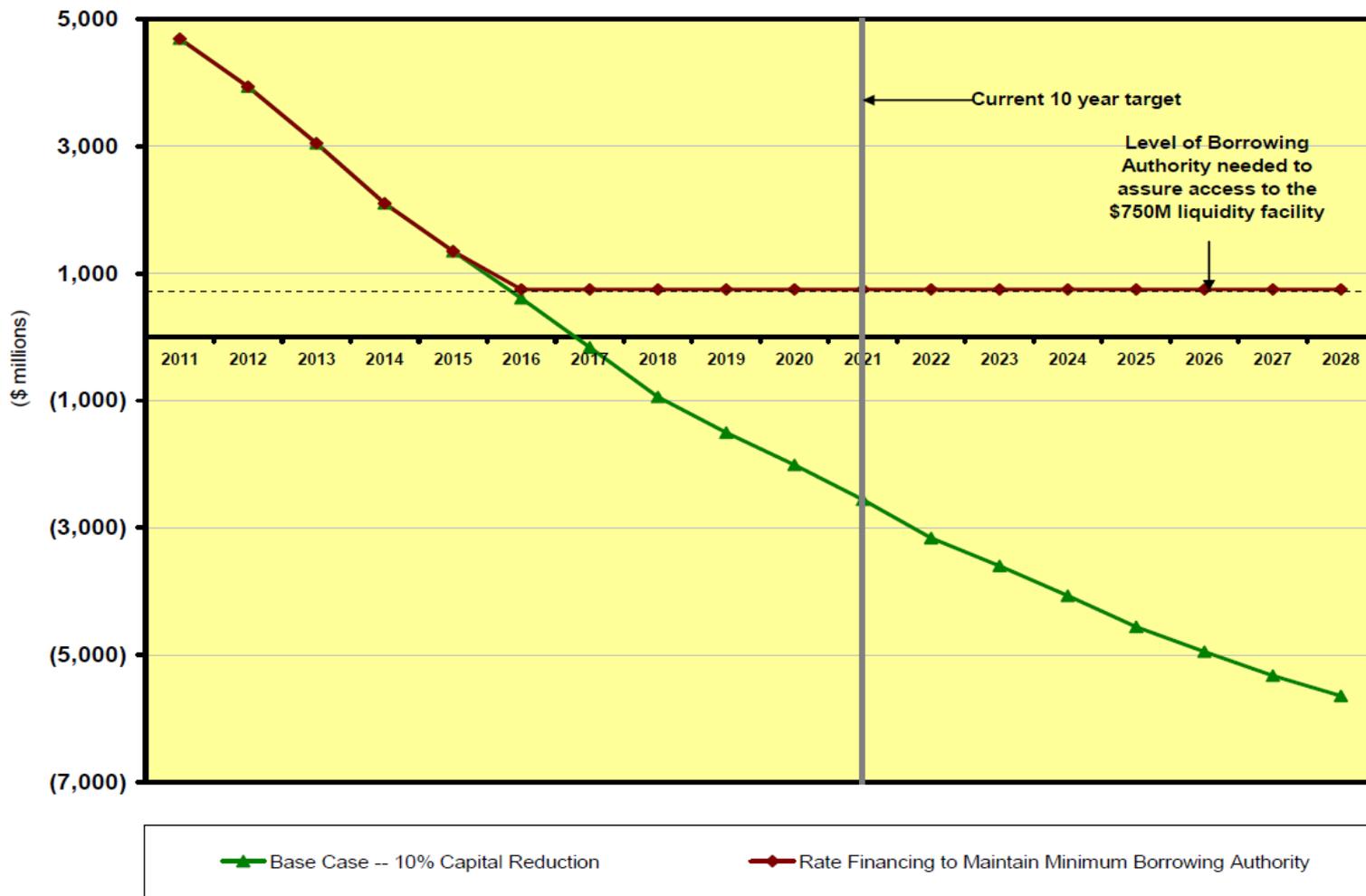
- No one really knows what would happen if BPA reached its Treasury borrowing limit.
- If we assume that capital investment is not cut, as we have in all other scenarios, some view revenue financing as the default option.

Scenario Assumptions

- Starting with the capital forecasts from the Base Case – 10% Capital Reduction, once total available remaining Treasury borrowing reaches the \$750 million threshold, Power capital borrowing matches bond amortization.
- The remaining capital spending, about \$4 billion, is funded through a combination of the cash generated from the Anticipated Accumulation of Cash (AAC) and revenue financing.
- The anticipated accumulation of cash mitigates the effect of revenue financing. As noted in the earlier discussion of the AAC, we would otherwise expect to accumulate about \$1.1 billion in cash. In this scenario, we are able to use this cash for capital investment which reduces the need for revenue financing.
- Despite the mitigation due to the AAC, the revenue financing requirement is significant. There is little Federal bond repayment in the 2016-2019 period. In 2017, for example, the entire Power capital program was revenue financed.
- Eventually rate impact will be mitigated: by 2028, rates are only 4% higher than the base case scenario. The variance from the base case declines over the study period because we would not be paying interest on capital investment that has been financed with revenues instead of debt.



Additional Material: Borrowing Authority under Revenue Financing



Addition Material: Prepayment

Caveats

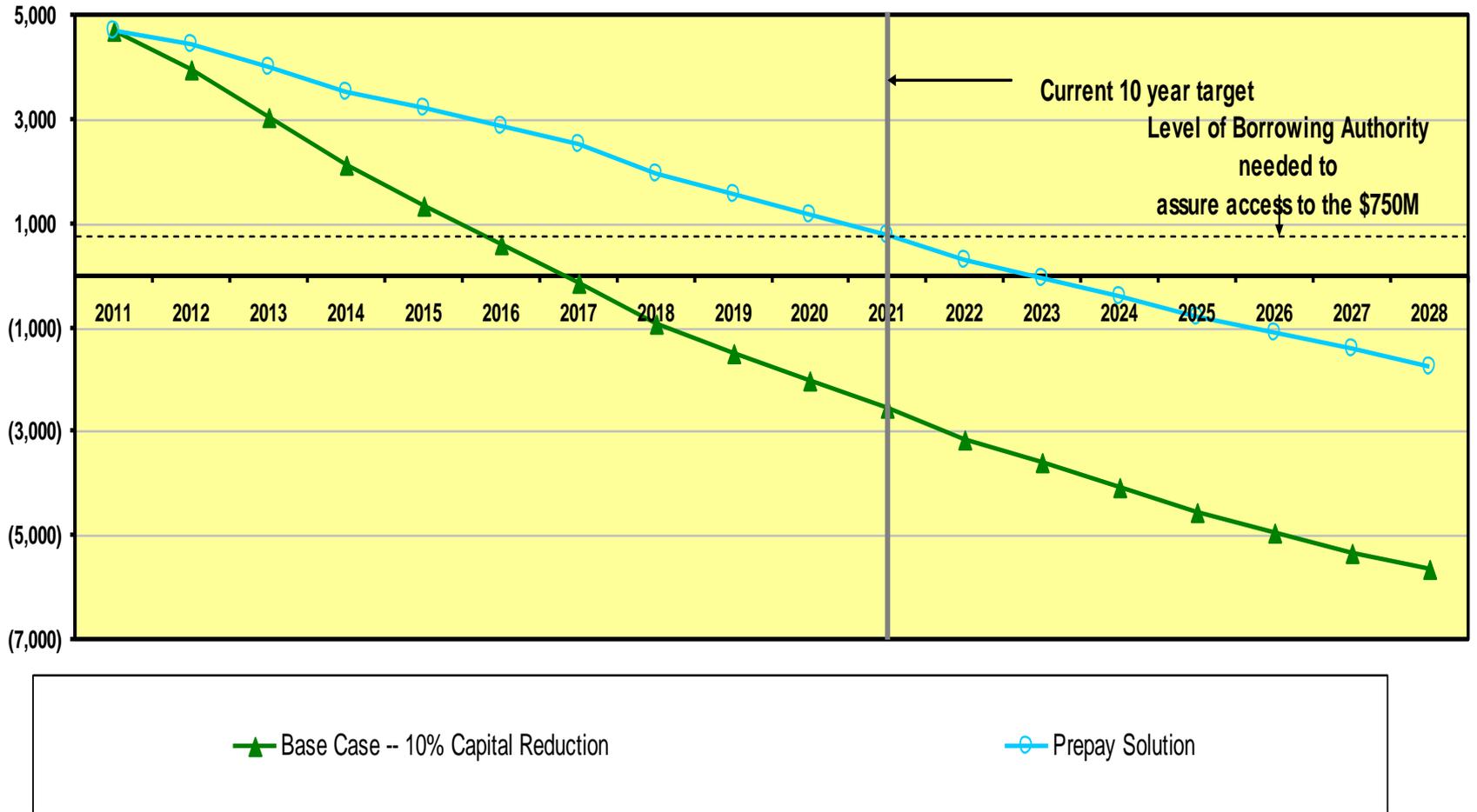
- Capital decisions in the 2012 IPR process are separate
- Outcome of 2012 IPR could impact size of prepay program offers
- New program, many issues to be identified, including differential treatment of participating and non-participating customers

Scenario Assumptions

- Base 10% capital reduction scenario with revenue financing; Agency-wide look.
- Relies on \$400 million in reserve financing and 25% lease financing for Transmission, which frees up some borrowing authority for Power.
- AAC for Power is \$1.1 billion.
- Between FY2014-2021, a remaining \$1.2 billion in agency capital spending is not otherwise met through borrowing authority, reserve and/or lease financing, and AAC for power.
- This remaining amount is allocated between Power and Transmission roughly 50/50, and is revenue financed to provide sufficient borrowing authority through 2020/21.
- Revenue financing is held constant beyond 2020/2021 levels.
- Prepayment (builds on above and includes upfront prepayment in early years)



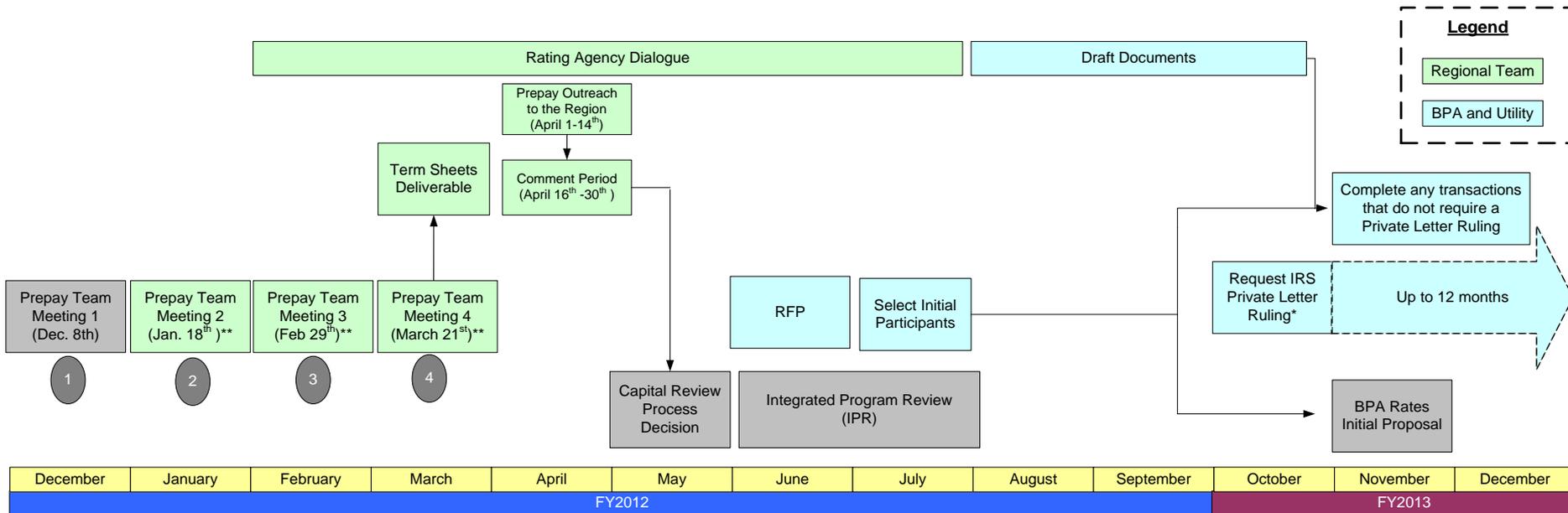
Additional Material: Borrowing Authority under Prepayment



Term Sheet Discussion
(please see additional handout)



Timeline Update



* Assumes that a customer issues bonds to fund the power prepayment

** Currently scheduled to be held at Tacoma PUD from 11am-2pm

Meeting Objectives

- 1 (1) Introduced the principles and base structure (2) Defined expectations and agreed upon meeting protocol
- 2 (1) Review power rate analysis (2) Discuss term sheet (3) Invite banker reaction and feedback to the base case
- 3 (1) Federal and state law (2) Accounting treatment (3) Rating agencies
- 4 (1) Finalize term sheets/RFP process



Next Steps

- Continue to discuss the term sheet
- Identify accounting treatment of a prepay transaction (BPA and the utility)
- Make contact with external experts for the February 29th meeting



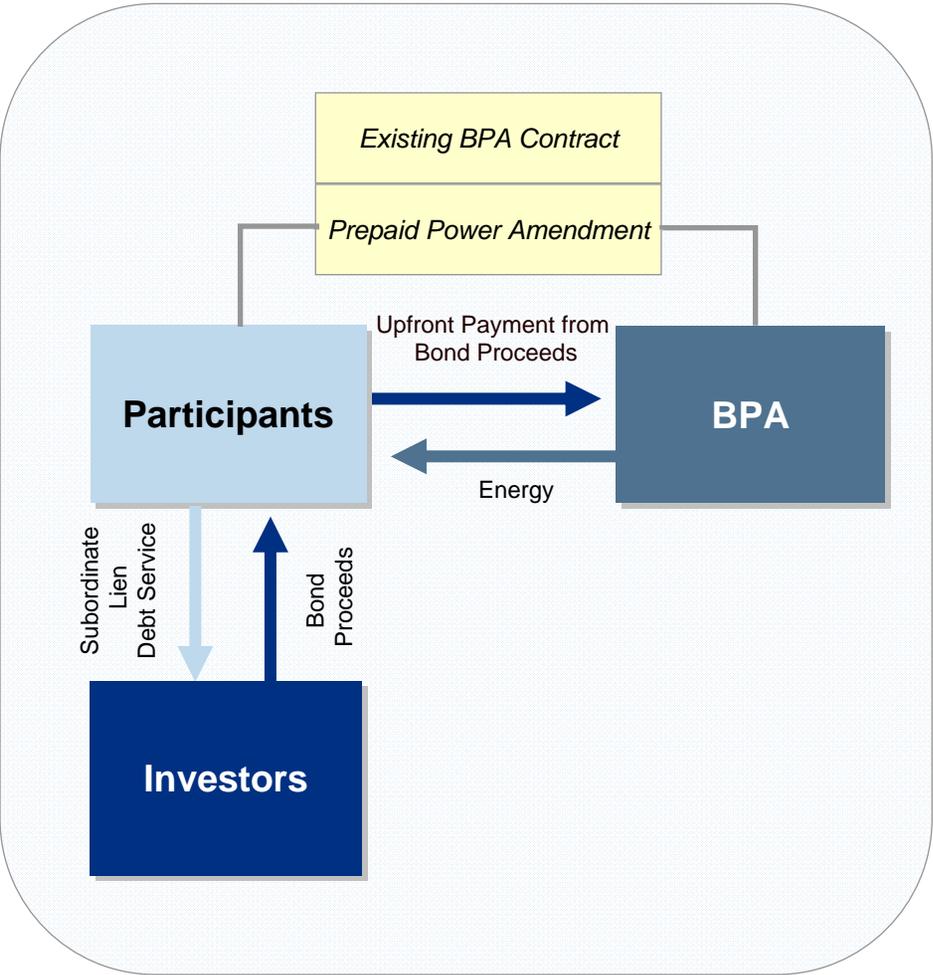
Prepay Working Group

Subordinate Lien Considerations

January 18, 2012



Subordinate Lien Structure (Utility Issuer)

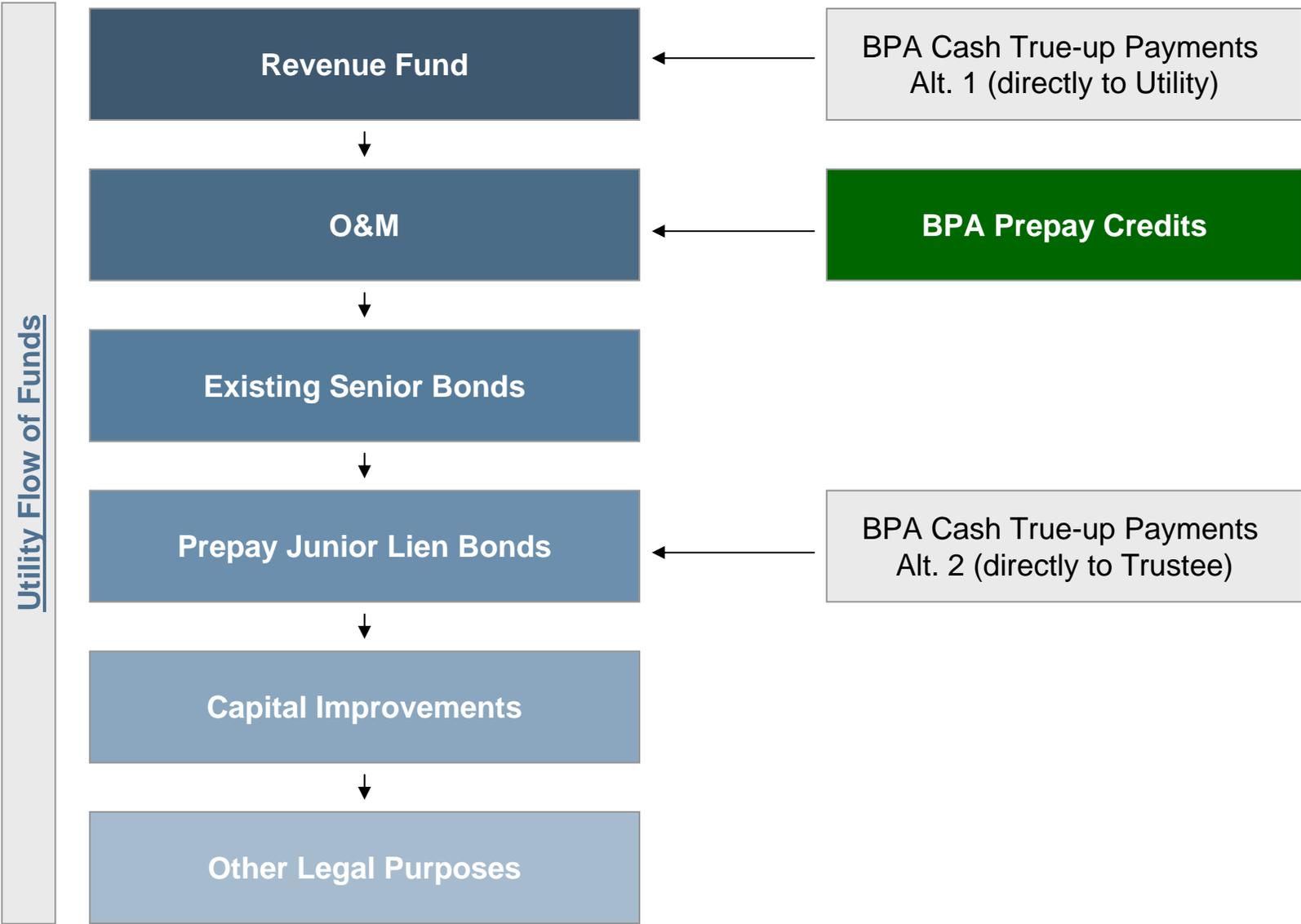


- Amendment to BPA Power Sales Agreement
- On-balance sheet financing by Participant
- Bonds rated on utility credit / Participant takes BPA credit risk
- BPA true up payments in event of failure to deliver
- Potential utility rating/debt metrics impact

Ultimate Goals:

- 1) Insulate utility from any impact from its bond covenants on its future ability to issue senior or subordinate bonds
- 2) Develop structure which minimizes impact on debt metrics / provides basis to convince rating agencies to address utility credit essentially identically to pre-prepay

Subordinate Lien Structure (Utility Issuer)



² Note: 1) Direct payment of true-up costs by BPA to trustee/paying agent may be possible under a tax exempt financing structuring and would be clearly permissible under a taxable financing structure.

Insulating the Utility's Credit: Subordinate Lien Prepay

- **Objective:**
 - Use subordinate lien to preserve lien position/rating on senior lien bonds
 - Insulate utility from impact on additional senior or subordinate bonds under its bond resolution
- **Security Considerations/ Bond Resolution:**
 - Utility requirement to pay based upon BPA delivery of power
 - Bonds “secured” by BPA true-up payment directly to trustee/paying agent in event of BPA failure to deliver
 - Treat prepay subordinate debt service as O&M cost for additional bonds test (ABT)
 - Mimics current situation – no change in ABT metrics
 - Does not result in anomaly during prepay period which ends in 2028
 - Allow additional parity bonds at subordinate level subject to “usual” ABT (with prepay debt service treated as O&M)

Resulting Financial Metrics – Hypothetical Case Study

The below example illustrates a hypothetical utility prepaying \$35 million in annual BPA power costs

Preliminary Metrics (For illustration only)

	(A) Current Situation	(B) Prepay as Senior Debt	(C) Prepay as Subordinate Debt
Revenues	\$300	\$300	\$300
Expenses	237	202	202
Net Revenues	\$63	\$98	\$98
Senior Electric System Debt Service	35	68	35
Subordinate Prepay Debt Service	0	0	33
Debt Service Coverage			
Senior Electric System Bonds	1.80x	1.44x	2.80x
All Bonds	1.80x	1.44x	1.44x
Fixed Charge Coverage ²	1.33x	1.30x	1.30x
Debt Ratio			
Before Prepay	38%		
After Prepay - with Asset			57%
After Prepay - without Asset			84%

¹ Assumes Utility prepays \$35 million per year in annual BPA costs.

⁴ ² Assumes S&P takes 50% of BPA costs as "fixed charge." Estimate uses \$100 million in annual BPA power costs.

Subordinate Lien Structure: Considerations

Benefits

- Most straightforward approach: clearly achievable
- Works well with concept of prepay amendment to payment terms of existing BPA contract
- No other changes in existing BPA contract
- Borrowing costs covered by BPA credit
- Utility gets incentive payment
- Subordinate lien structure better insulates utility credit/primary borrowing lien
- Subordinate lien can be structured to have no negative impact on utility's borrowing capacity under its bond resolution

Considerations

- On-balance sheet treatment for utility
- Negatively impacts combined debt service coverage and fixed charge coverage calculations by the rating agencies
- Negatively impacts debt ratio calculations
- Uncertainty as to future treatment by rating agencies
- Utility takes BPA credit risk for regular subordinate bonds
- Separate utility subordinate lien transactions lead to unique and time-consuming separate financings

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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation



Prepay Regional Team Meeting #3

February 22nd, 2012
11am-2pm

Held at the office of: Tacoma Power - Auditorium Conference Room

Utility Members

<p>Benton PUD Chad Bartram Assistant General Manager bartramc@bentonpud.org 509-582-1202</p>	<p>Bonneville Power Administration Jon M. Dull Manager, Debt and Investment Management, acting jmdull@bpa.gov 503-230-7544</p> <p>Andre Hesser Financial Analyst aghesser@bpa.gov 503-230-3225</p> <p>Robb Roberts Attorney Advisor rfroberts@bpa.gov 503-230-4314</p> <p>Peter Stiffler Industry Economist pbstiffler@bpa.gov 503-230-5660</p>
<p>Clark PUD Rick A Dyer Director of Finance/Treasurer RDyer@clarkpud.com 360-992-3384</p>	
<p>Lewis PUD David Plotz Power Manager davidp@lcpud.org 360-740-2429</p>	
<p>Northwest Requirements Utilities (NRU) Geoff Carr ghcarr@pacifier.com 503-233-5823</p>	
<p>Snohomish PUD Glenn McPherson Asst. General Manager, Finance and Treasurer gsmcpherson@snopud.com 425-783-8356</p> <p>Jim Herring Deputy Treasurer jlherring@snopud.com 425-783-8303</p>	
<p>Tacoma Power Jim Russell Power Management jrussell@ci.tacoma.wa.us 253-502-8395</p> <p>Matt Zehnder Power Analyst mazehnder@ci.tacoma.wa.us 253-502-8686</p>	



Agenda for Today's Meeting

- **Review of the draft term sheet**
 - Minimum level of participation
 - Increments above the minimum level
- **Auction Process**
 - “As is” bidding
 - Market-Clearing Auction Price
- **Timeline**
 - Major milestones for the regional team
 - Future agendas
- **Risks profile**

- **Next Steps**



Draft Term Sheet

- Please see additional handout



Auction Process

- BPA will offer a fixed number of product 'Blocks', upon which customers will bid.
- These products will be identical, offering a specified fixed (potentially *shaped using BPA's average load*) monthly credit for the value of electricity through the term of the Regional Dialogue contracts.
- Customers will bid on one or more of these Blocks, specifying the price of the prepayment (that is the amount of cash to be prepaid).
- Customers will be permitted to bid on credit streams up to 50% of the average monthly value of future electricity purchases, and no more than 75% of the value which coincides with their lowest months load.
- BPA will not close the deal if the amount of the accepted bids does not equal at least a minimum amount.
- BPA will select bids up to its internally selected reservation price.
- BPA will accept the risk of interest rate movement between the auction date and the date the deal closes.
- If the price movement between the bid date and the close date is such that BPA chooses to cancel the deal, BPA will reimburse all parties with an accepted bid for reasonable costs incurred between those two dates.
- A customer may exit the deal before the deal closes for a payment
 - However, earnest monies may be required
- BPA could run this auction for several years in a row, but the number of years for the available credits would decline each year (to coincide with the term of the Regional Dialogue contracts).
- If multiple bids are received at the same price, a lottery would be used to determine the winning bid.



Auction Process

- BPA is considering two different methods to determine the price paid for accepted offers
 - “As Bid” Pricing: The price paid for each Block will equal the price offered for that Block by the Preference Customer whose offer is accepted.
 - Market-Clearing Auction Price: The market-clearing auction price per Block will apply to all accepted offers.



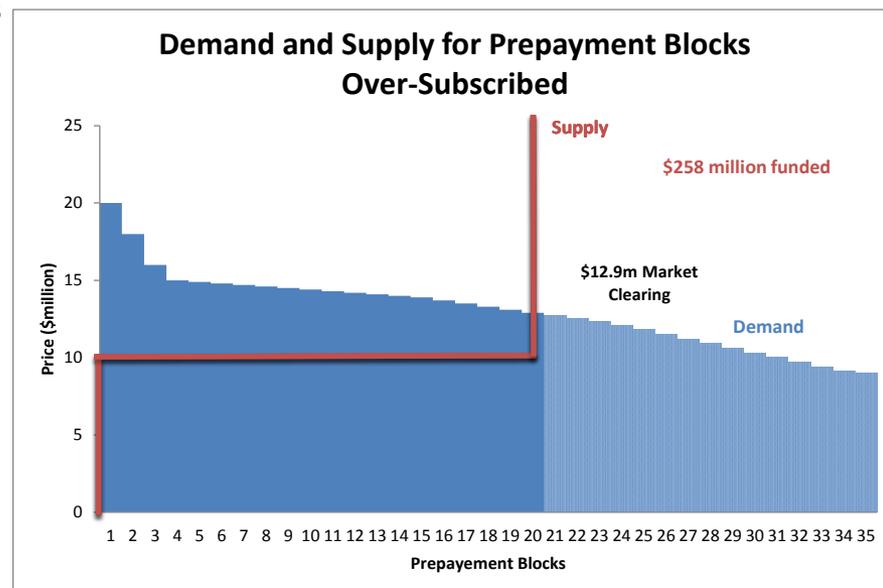
“As Is Bid” Example

- BPA Offers 20 Blocks of \$100,000 monthly credits for the value of electricity for 15 years
- BPA anticipates that, if fully subscribed, this program would generate 200-260 million in prepayment revenues
 - This is roughly equivalent with \$12 million mortgage over 15 years at 5.75%
 - Therefore, depending on the size of the program desired, BPA sponsors could recommend a \$10 million reservation price (which would be equivalent to a 9% rate on the mortgage)
- **Suppose BPA receives 35 bids as follows:**
 - 9,9.1,9.2,9.8,10,10.2,.....,**12.9** (bid total),...,15 (9 bids total),16 (8 bids total) ,20 (1 bid total)
 - 4 bids are less than the \$10 million dollar reservation price
 - 31 bids remaining, of which the 20th lowest bid = \$12.9 million
 - \$12.9 million is the market clearing price, however participants pay there actual bid of 12.9,15,16 and 20
 - The program generates **\$295.9 million** in prepay revenues
- The Program is **Over-Subscribed**



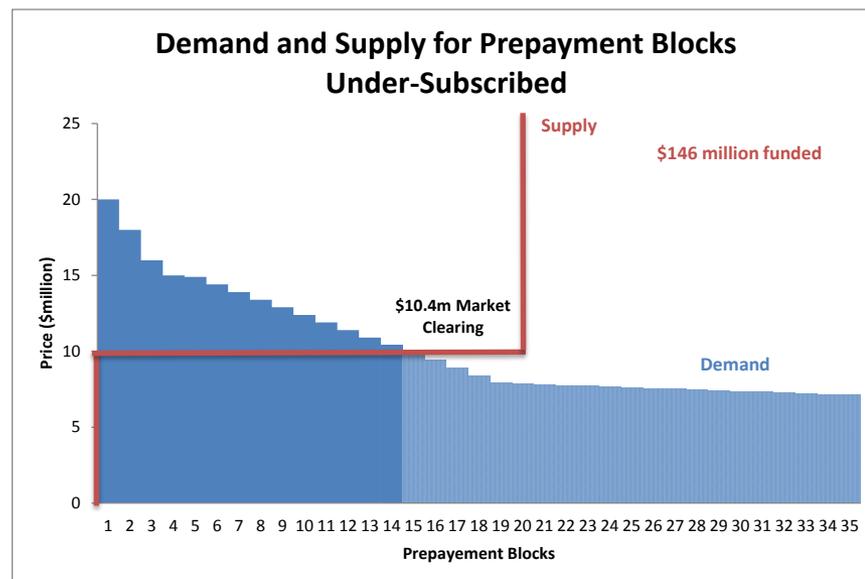
Market Clearing Auction Price- Example 1

- BPA Offers 20 Blocks of \$100,000 monthly credits for the value of electricity for 15 years
- BPA anticipates that, if fully subscribed, this program would generate 200-260 million in prepayment revenues
 - This is roughly equivalent with \$12 million mortgage over 15 years at 5.75%
 - Therefore, depending on the size of the program desired, BPA sponsors could recommend a \$10 million reservation price (which would be equivalent to a 9% rate on the mortgage)
- **Suppose BPA receives 35 bids as follows:**
 - 9,9.1,9.2,9.8,10,10.2,.....,**12.9** (bid total),...,15 (9 bids total),16 (8 bids total) ,20 (1 bid total)
 - 4 bids are less than the \$10 million dollar reservation price
 - 31 bids remaining, of which the 20th lowest bid = \$12.9 million
 - \$12.9 million is the market clearing price
 - The program generates **\$258 million** in prepay revenues
- The Program is **Over-Subscribed**

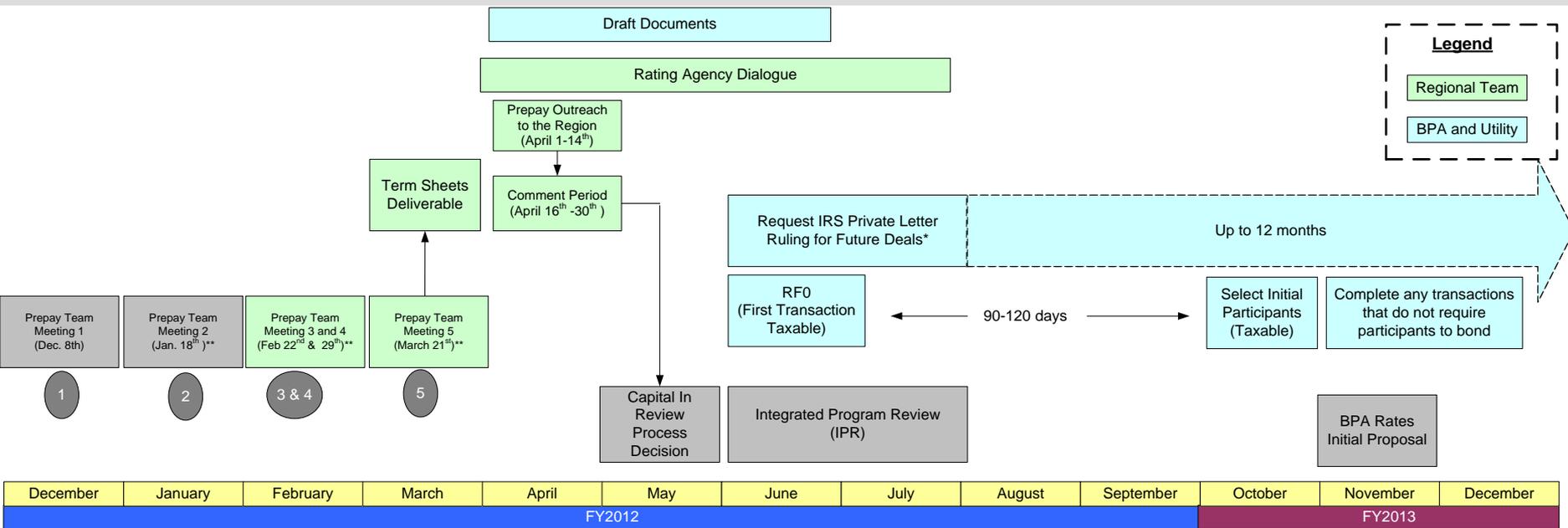


Market Clearing Auction Price- Example 2

- BPA Offers 20 Blocks of \$100,000 monthly credits for the value of electricity for 15 years
- BPA anticipates that, if fully subscribed, this program would generate 200-260 million in prepayment revenues
 - This is roughly equivalent with \$12 million mortgage over 15 years at 5.75%
 - Therefore, depending on the size of the program desired, BPA sponsors could recommend a \$10 million reservation price (which would be equivalent to a 9% rate on the mortgage)
- **Suppose BPA receives 35 bids as follows:**
 - 7.1, 7.15, 7.2,, 10.4,, 15.1, 16, 18, 20
 - 21 bids are less than the \$10 million dollar reservation price
 - 14 bids remaining, of which the lowest bid = \$10.4 Million
 - \$10.4 million is the market clearing price
 - The program generates **\$145.6 million** in prepay revenues
- The Program is **Under-Subscribed**



Updated Major Milestones Timeline



* Assumes that a customer issues tax-exempt bonds to fund the power prepayment and therefore a Private Letter Ruling is required from the IRS
 ** Meetings 3-5 are currently scheduled to be held at Tacoma Power from 11am-2pm

Meeting Objectives

- 1** (1) Introduced the principles and base structure (2) Defined expectations and agreed upon meeting protocol
- 2** (1) Review power rate analysis (2) Discuss term sheet (3) Invite banker reaction and feedback to the base case
- 3** (1) Revised term sheet (2) Alternative auction proposal (3) Risk assessment
- 4** (1) Federal and state law (2) Proposed rating agencies strategy
- 5** (1) Finalize term sheets (2) Possible accounting treatment



Risk Profile

- Please see additional handout



Next Steps

- Continue discussion on the draft term sheet and the auction process
- Finalize rating agency strategy
- Go over possible accounting treatment
- Regional team meeting Feb 29th



Prepay Regional Team Meeting #4

February 29th, 2012
11am-4pm

Held at the office of: Tacoma Power - Conference room M1 (main floor)

To dial into the bridge, please dial 503-230-5566. At any time during or after the message and the double beep, enter 4457 #.

Utility Members

<p>Clark PUD Rick A Dyer Director of Finance/Treasurer RDyer@clarkpud.com 360-992-3384</p>	<p>Eugene Water & Electric Board (EWEB) Cathy Bloom Financial Services Manager Cathy.BLOOM@eweb.org 541-685-7150</p>
<p>Lewis PUD David Plotz Power Manager davidp@lcpud.org 360-740-2429</p>	<p>PNGC Power Doug Brawley Senior Vice President of BPA Supply & Member Rates DBrawley@pngcpower.com 503-288-1234</p>
<p>Northwest Requirements Utilities (NRU) Geoff Carr ghcarr@pacifier.com 503-233-5823</p>	<p>Benton PUD Chad Bartram Assistant General Manager bartramc@bentonpud.org 509-582-1202</p> <p>Janet White whitej@bentonpud.org</p>
<p>Snohomish PUD Glenn McPherson Asst. General Manager, Finance and Treasurer gsmcpherson@snopud.com 425-783-8356</p> <p>Jim Herrling Deputy Treasurer jlherrling@snopud.com 425-783-8303</p>	<p>Bonneville Power Administration Jon M. Dull Manager, Debt and Investment Management, acting jmdull@bpa.gov 503-230-7544</p> <p>Andre Hesser Financial Analyst aghesser@bpa.gov 503-230-3225</p> <p>Robb Roberts Attorney Advisor rroberts@bpa.gov 503-230-4314</p> <p>Peter Stiffler Industry Economist pbstiffler@bpa.gov 503-230-5660</p>
<p>Tacoma Power Jim Russell Power Management jrussell@ci.tacoma.wa.us 253-502-8395</p> <p>Matt Zehnder Power Analyst mazehnder@ci.tacoma.wa.us 253-502-8686</p>	



Agenda for Today's Meeting

- **Continued Term Sheet Discussion**
 - Minimum prepayment
 - Performance Deposits
 - Auction Process

- **Continued Auction Process**
 - Market Clearing Auction
 - Bidding example
 - Valuing a block of credits
 - Formulating a bid
 - Rate of return
 - Interest rate risk
 - Credit spread risk

- **Other Concerns Expressed**

- **Federal and State Law**

- **Timeline**

- **Proposed Rating Agency Strategy**

- **Next Steps**



Review of Last Weeks Regional Team Meeting

Minimum Prepayment

- Customers supported \$50,000 monthly prepay credit block (\$9 million or 5.5 aMW).
- NRU and PNGC raised concerns over the 4 block prepay minimum (\$36 million or a 20 aMW) but expressed it was a improvement from the \$100 million minimum prepayment that was earlier expressed.
- BPA recommends that we drop the 4 block minimum for participating utilities.
- BPA has the expectation that the total participation level in the first RFO will need to be \$300-500 million to proceed with the program.

Performance Deposits

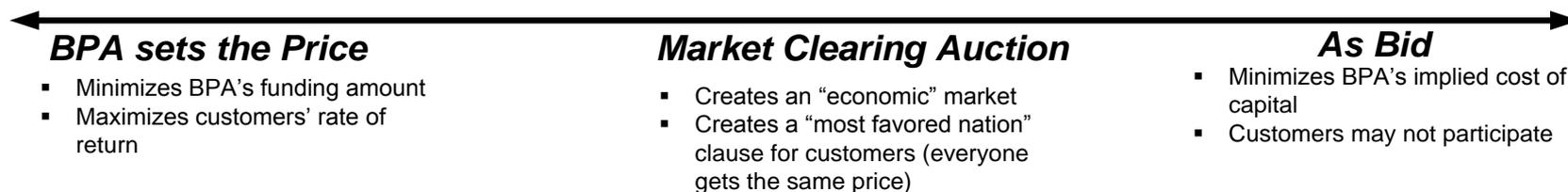
- BPA proposes dropping the performance deposit requirement.

Auction Process

- BPA proposes to use the “Market Clearing Auction.”

Participating Utilities

Non-participating Utilities



Auction Process: Market Clearing vs. As Bid Mechanism

Market Clearing Price

Funding Amount	BPA Implied Cost of Capital	Consumer Surplus
\$ 27,948,550	3.3%	\$ 1,975,075
27,102,800	3.8%	1,129,325
26,545,600	4.4%	572,125
25,973,475	4.9%	-

← Clearing price for all successful bids

Total Program Generates = \$103.89 million
 BPA Implied Cost of Capital = 4.9%

As Bid Clearing Price

Funding Amount	BPA Implied Cost of Capital	Consumer Surplus
\$ 27,948,550	3.3%	-
27,102,800	3.8%	-
26,545,600	4.4%	-
25,973,475	4.9%	-

← Final price of each successful bid

Total Program Generates = \$107.57 million
 BPA Implied Cost of Capital = 4.1%



Valuing a Block of Credits

- BPA is planning on offering blocks of \$50,000 monthly credits.
- If a utility purchases 4 blocks and since the current contracts go through 2028, or ~ 15 years (assuming that funding takes place on March 1st, 2013), the nominal value of the credits would be \$36.0 million:
 - \$50,000 monthly credits per block
 - \$600,000 annually per block (\$50,000 X 12 months)
 - \$9.0 million contract value per block (\$600k X 15 years)
 - \$36.0 million (\$9.0 million per block X 4 blocks)
- The nominal value ignores the time value of money or financing costs related to funding the credits.



Formulating A Bid (Breakeven)

- A utility's bid will be based on their cost of capital and the amount of savings it requires.
- As an example let's assume a utility formulated a bid using the following assumptions:
 - \$50,000 monthly 15-year power block
 - 4 power blocks in total
 - Utility's all-In cost of capital (financing rate) = 3.33%
- Using these assumptions we calculate that the maximum a utility would be willing bid for a total of 4 blocks is \$27,948,550 (\$28,290,000 minus cost of issuance). As demonstrated below, this bid would result in the utility receiving no incentive from Bonneville.

	A	B	+	C	=	D	A-D
	Annual Credits	Principal		Interest		Debt Service	Gross Savings
1/1/2014	2,400,000	1,635,000		765,000		2,400,000	-
1/1/2015	2,400,000	1,650,000		750,000		2,400,000	-
1/1/2016	2,400,000	1,670,000		730,000		2,400,000	-
1/1/2017	2,400,000	1,690,000		710,000		2,400,000	-
1/1/2018	2,400,000	1,715,000		685,000		2,400,000	-
1/1/2019	2,400,000	1,745,000		655,000		2,400,000	-
1/1/2020	2,400,000	1,785,000		615,000		2,400,000	-
1/1/2021	2,400,000	1,830,000		570,000		2,400,000	-
1/1/2022	2,400,000	1,885,000		515,000		2,400,000	-
1/1/2023	2,400,000	1,940,000		460,000		2,400,000	-
1/1/2024	2,400,000	2,005,000		395,000		2,400,000	-
1/1/2025	2,400,000	2,070,000		330,000		2,400,000	-
1/1/2026	2,400,000	2,145,000		255,000		2,400,000	-
1/1/2027	2,400,000	2,220,000		180,000		2,400,000	-
1/1/2028	2,400,000	2,305,000		95,000		2,400,000	-
	36,000,000	28,290,000		7,710,000		36,000,000	-



Formulating A Bid and a Rate of Return

- As a utility lowers its bid from the breakeven price of \$27,948,550, its debt service is lowered and savings are generated.
- How low a utility bids will depend on the perceived risk in the prepayment and the utility's desire to receive an additional incentive payment.
- The following table shows the relationships between a lower bid price, spread over the utility's borrowing rate (the implied additional cost to Bonneville), and the savings realized by the utility.

Bid Price/Savings Sensitivity

Total Bid	Spread Over Utility Financing Rate	Annual Credits	Total Debt Service	Gross Savings	Gross Savings ⁽¹⁾ (%)	BPA Implied Cost of Capital
\$ 27,948,550	0.00%	\$ 36,000,000	\$ 36,000,000	-	0.0%	3.33%
27,102,800	0.44%	36,000,000	34,877,221	1,122,779	3.0%	3.77%
26,545,600	1.05%	36,000,000	33,434,723	2,565,277	7.0%	4.38%
25,973,475	1.52%	36,000,000	32,360,145	3,639,855	10.0%	4.86%

(1) Gross savings as a percentage of total credits



Interest Rate Risk

- If a utility issues bonds to fund the prepayment, there are two main components to the borrowing cost:
 - Interest Rates (US Treasury Index)
 - Credit Spread Risk (the spread to Treasuries)

- To protect the utility, Bonneville has offered to take the interest rate risk associated with a change in the US Treasuries between the time the bid is accepted and the funding transaction is priced.

- Similar to if a utility entered into a interest rate hedge with BPA, if interest rates rise between when the bid was accepted and the funding transaction, the utility would fund less than the agreed to amount, and if interest rates declined between the bid was accepted and the funding transaction, the utility would fund more than the agreed to amount.

- As an example: Assume the a utility originally submitted a bid of \$27,948,550 for four \$50,000 15-Year monthly power blocks. If interest rates were to rise by 50bps the final bid price would be adjusted downward to \$26,948,575 giving the utility the same savings profile as when it originally entered the bid.

Change in Treasury Rates

	-1.00%	-0.75%	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.75%	1.00%
Final Bid Price	30,132,575	29,560,450	29,013,200	28,470,925	27,948,550	27,446,075	26,948,575	26,475,950	25,998,350
Change in Price	2,184,025	1,611,900	1,064,650	522,375	-	-502,475	-999,975	-1,472,600	-1,950,200



Credit Spreads Risk

- Bonneville has offered to take the interest rate risk associated with a change in US Treasuries between the time the bid is accepted and the funding transaction is priced, however Bonneville does not assume the utility’s credit spread risk.
- BPA is exploring potential “off ramps” for utilities if credit spreads increase above a certain level.
- If credit spreads were to change and no “off ramp” to terminate the prepay agreement was available, no adjustment would be made to the prepayment amount.
- The following table shows the impact of a change in credit spreads (both higher and lower) on the actual savings realized by the prepaying utility.
 - As a base case (0% change in credit spread) we assume that the utility’s bid would have resulted in savings of 3%.

Change in Credit Spread

	-0.25%	-0.20%	-0.15%	-0.10%	-0.05%	0.00%	0.05%	0.10%	0.15%	0.20%	0.25%
Total Debt Service	34,241,748	34,375,388	34,496,789	34,621,656	34,754,648	34,877,221	35,010,035	35,137,316	35,266,196	35,387,644	35,514,405
Total Savings	1,758,252	1,624,612	1,503,211	1,378,344	1,245,352	1,122,779	989,965	862,684	733,804	612,356	485,595
Change in Savings	635,474	501,833	380,432	255,566	122,574	-	(132,814)	(260,095)	(388,974)	(510,423)	(637,184)
Total Savings (%)	4.9%	4.5%	4.2%	3.8%	3.5%	3.0%	2.7%	2.4%	2.0%	1.7%	1.3%



Other Concerns Expressed By The Regional Team

- If BPA is assuming the interest rate risk between the time the bid is accepted and the funding transaction is priced, is there a derivative impact that needs to be explored?
 - *BPA staff agrees and will look into this*
- Are there any cash impacts between slice and non-slice customers due to the infusion of cash from the prepays?
 - *BPA staff does not think there will be any equity issues between slice and non-slice customers because it will apply to both customer classes in the same way. The credited revenues would be an element of Minimum Required Net Revenue (MRNR) that will impact both customers in the same way.*
- If BPA uses the prepayment to pay down Treasury Bonds, it could have considerable negative arbitrage since it would be paying low interest rate bonds off with a higher cost of capital.
 - *BPA plans to limit the number of blocks offered to customers and limit the number of blocks so that the maximum potential prepayment does not exceed forecasted capital spending. In addition, there is a low probability of this occurring, since BPA would have to receive \$800 million in prepayment funds each RFO (RFO's are offered every other year).*
- BPA should not over collect on prepays and needs to set an annual limit.
 - *See above answer about prepayment of Treasury bonds*
- BPA should consider the overall cost of capital of prepays and compare it to other sources of capital.
 - *BPA has passed this concern on to management.*
- BPA needs to set an overall prepayment total to ensure the deemed assignment of prepayment credits is useful.
 - *BPA staff agrees, inherently we have done this by setting individual utility limits at 50% of their bill. Therefore, if all customers participated there would be approximately \$1.5-2.0 billion in annual revenue that would be available for the deemed assignment from a participating customer if it was unable to use all of its credits.*
- BPA should consider allowing utilities to sell their credits to make them more liquid, similar to the Renewable Energy Credits /Certificate (REC). market.
 - *BPA staff believes that this could cause tax-exempt financing concerns and may be considered in future RFO's but seems to be premature for the initial program design.*

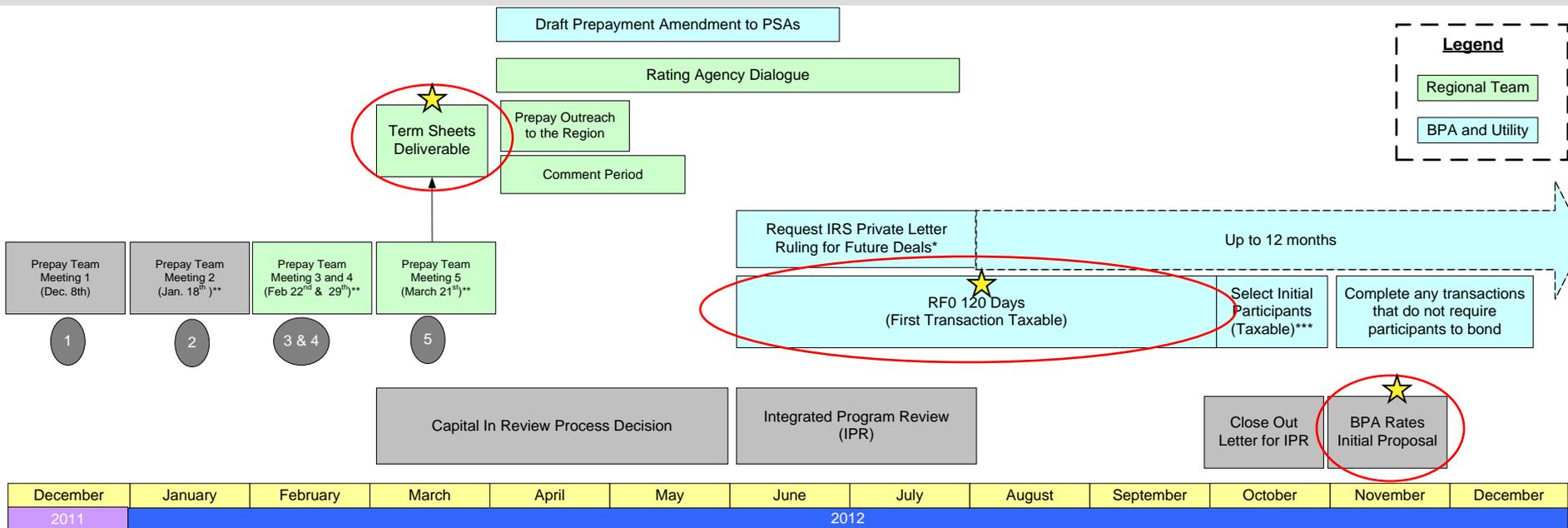


Federal and State Law

- Conversation with BPA's General Counsel and Nancy Neraas from Foster Pepper PLLC



Updated Major Milestones Timeline



* Assumes that a customer issues tax-exempt bonds to fund the power prepayment and therefore a Private Letter Ruling is required from the IRS

** Meetings 3-5 are currently scheduled to be held at Tacoma Power from 11am-2pm

*** Funding for utilities that issue debt would be in April/May 2013

Meeting Objectives

- 1 (1) Introduced the principles and base structure (2) Defined expectations and agreed upon meeting protocol
- 2 (1) Review power rate analysis (2) Discuss term sheet (3) Invite banker reaction and feedback to the base case
- 3 (1) Revised term sheet (2) Alternative auction proposal (3) Risk assessment
- 4 (1) Term sheet (2) Auction process (3) Federal and state law (4) Proposed rating agencies strategy
- 5 (1) Finalize term sheets (2) Draft rating agency presentation



Proposed Rating Agency Strategy- Logistics

- Host an initial meeting with the rating agencies to describe the prepayment program and the proposed borrowing structure
 - Keeps a consistent message, avoids confusion over structure and its impacts
 - Include a sub-group of the regional team
 - Informational in purpose
 - Seeking feedback from rating agencies on rating methodology/impacts on debt metrics
 - Additional meetings on the individual utility level warranted should transaction move forward
- BPA participants: Claudia Andrews and Jon Dull
- Utility participants: Two participants are recommended to help focus the conversation
 - 1 PUD (Snohomish)
 - 1 City Utility (Tacoma)
- Banker/FA Participants
 - 1 banker each from Citi/BAML
 - DeRose as FA representative
- In-person meetings recommended in either San Francisco or New York
 - Fall back option would be to host meetings in Seattle
- Timing: April 2012



Proposed Rating Agency Strategy- Topics (continued)

- 1) **Introduction (2 pages)**
 - a) Introduction of meeting participants
 - b) Executive summary of prepay concept

- 2) **BPA Capital Discussion (2-3 pages)**
 - a) Summary of financing needs over next 10 years
 - b) Summary of funding alternatives
 - c) Size and scope of prepayment program

- 3) **Prepay Term Sheet (2-3 pages)**
 - a) Nature of the prepay
 - i. \$50,000 monthly blocks
 - ii. 15 years
 - b) Selection Process
 - i. Market Clearing Auction
 - c) Funding Commitments and Off-ramps
 - i. Interest rate risk
 - ii. Credit spread risk
 - d) Deemed Assignment of Credits



Proposed Rating Agency Strategy- Topics (continued)

4) Overview of Proposed Structure (4-5 pages)

- a) Subordinate credit of utility
- b) Flow of funds
 - i. How BPA's prepay credits work in flow
 - ii. Additional Bonds Test, bond covenants
- c) Security: Utility safeguards
 - i. BPA delivery obligation / true-up payments
 - ii. Nature of obligation of the utility
 - iii. Utility failure to pay debt service
 - iv. Deemed reassignment of credits
 - v. Force majeure

5) Overview of legal authority (1 page)

- a) Federal Law
- b) State law
- c) Tax law
 - i. Private letter ruling on future deals

6) Indicative numbers (3-4 pages)

- a) Structure of cash flows (prior bill, credits, debt service, etc)
- b) Effect on utility's credit metrics (how we would like them to see it)



Proposed Rating Agency Strategy- Topics (continued)

7) Conclusion and Asks (2 pages)

- a) Schedule overview
- b) Ask for feedback from the agencies in [2] weeks
 - i. How each agency will view prepay debt service versus current O&M obligation
 - ii. How each agency will treat the structure in their metrics
 - a. Relationship to debt/coverage ratios
 - b. Future debt capacity
 - iii. Guidance on how much a utility could prepay BPA without affecting its senior ratings



Next Steps

- Continue Federal and State law research

- Regional Team Meeting on March 21st
 - Finalize term sheet
 - Review draft rating agency presentation

- Driving toward recommending a final term sheet by the end of March



Prepay Regional Team Meeting #5

March 21st, 2012
11am-3pm

Held at the office of: Tacoma Power - Auditorium Conference Room

To dial into the bridge, please dial 503-230-5566. At any time during or after the message and the double beep, enter 4457 #.

Utility Members

<p>Clark PUD Rick A Dyer Director of Finance/Treasurer RDyer@clarkpud.com 360-992-3384</p>	<p>Eugene Water & Electric Board (EWEB) Cathy Bloom Financial Services Manager Cathy.BLOOM@eweb.org 541-685-7150</p>
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Agenda for Today's Meeting

- **BPA's Appreciation to the Group**
 - Claudia Andrews, Executive Vice President and Chief Financial Officer

- **Principles of the Prepay Model**

- **Basic Prepay Terms**

- **Review- Valuing a Block of Credits**
 - Valuing a Block of Credits
 - Formulating a Bid (Break Even)
 - Formulating a Bid for a Rate of Return

- **Credit Risk**
 - Adjusting the Bid for Credit Risk

- **Potential Power Rate Savings**

- **Draft Rating Agency Strategy**

- **Timelines**

- **Next steps**



Principles of the Prepay Model

1. **Fixed credit/adjustable price:** A prepay transaction locks in a credit, not power prices. BPA's future rates may go up or down, but the customer will always receive a fixed credit on the prepaid portion of their bill equal to the prepay bond debt service (if applicable) plus an incentive.
 - BPA is mandated to recover its costs from customers and bases its power rates on this mandate. Therefore, BPA cannot lock a fixed power purchase price to recover its future costs when we do not know those costs.
 - Prepay program should be a win-win for participants and non-participants; a fixed price would violate this goal.

2. **Consistent with existing Regional Dialogue contracts:** A prepay transaction should fit within existing Regional Dialogue contracts and does not constitute an "assignment" of power sold at a Tier 1 rate, which may trigger the Tiered Rates Methodology voting process or a 7(i) process.

3. **Placement of credits:** BPA has limited degrees of freedom in terms of when credits can be paid and needs to define the timing of credits to minimize the impacts to future revenue requirements.
 - BPA will minimize rate impacts by timing credits using repayment study and revenue requirement analysis.
 - The precise timing mentioned above means that the credit stream should be considered fixed and is not flexible.



Basic Prepay Terms

- \$50,000 monthly level prepay credit blocks
- Credits match the current Power Sales Agreement (PSA's) and go through 2028
- Credits are not transferable or sellable by customers
- No minimum block requirement
- No partial block sales
- No performance deposit requirement
- BPA will use the Market Clearing Auction to determine the price of the blocks
- There will be a deemed assignments of prepayment credits for monthly unused credits and BPA will remit cash to the repaying customer as long as BPA has power purchases from other customers.
- The Utility is expected to fund the prepayment 30 days after a date the utility sets
- Monthly credits start 60 days after the prepayment is funded
- If a utility issues debt to fund the prepayment
 - BPA will take the full interest rate risk between the bid and funding by adjusting the market clearing price
 - BPA will offer off ramps to customers for credit risk between bid and funding that ensures utilities a savings level
 - BPA will not financially guarantee the payment of principal or interest on any debt issued by or for the benefit of the repaying customer.



Review: Valuing a Block of Credits

- BPA is planning on offering blocks of \$50,000 monthly credits.
- If a utility purchases 4 blocks and since the current contracts go through 2028, or ~ 15 years (assuming that funding takes place on March 1st, 2013), the nominal value of the credits would be \$36.0 million:
 - \$50,000 monthly credits per block
 - \$600,000 annually per block (\$50,000 X 12 months)
 - \$9.0 million contract value per block (\$600k X 15 years)
 - \$36.0 million (\$9.0 million per block X 4 blocks)
- The nominal value ignores the time value of money or financing costs related to funding the credits.



Review: Formulating A Bid (Breakeven)

- A Utility's bid will be based on their cost of capital and the amount of savings it requires.

- As an example let's assume a utility formulated a bid using the following assumptions:
 - \$50,000 monthly 15-year power block
 - 4 power blocks in total
 - Utility's all-In cost of capital (financing rate) = 3.33%

- Using these assumptions we calculate that the maximum a Utility would be willing to bid for a total of 4 blocks is \$27,948,550 (\$28,290,000 minus cost of issuance). As demonstrated below, this bid would result in the utility receiving no incentive from Bonneville.

	A	B	+	C	=	D	A-D
	Annual Credits	Principal		Interest		Debt Service	Gross Savings
1/1/2014	2,400,000	1,635,000		765,000		2,400,000	-
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1/1/2016	2,400,000	1,670,000		730,000		2,400,000	-
1/1/2017	2,400,000	1,690,000		710,000		2,400,000	-
1/1/2018	2,400,000	1,715,000		685,000		2,400,000	-
1/1/2019	2,400,000	1,745,000		655,000		2,400,000	-
1/1/2020	2,400,000	1,785,000		615,000		2,400,000	-
1/1/2021	2,400,000	1,830,000		570,000		2,400,000	-
1/1/2022	2,400,000	1,885,000		515,000		2,400,000	-
1/1/2023	2,400,000	1,940,000		460,000		2,400,000	-
1/1/2024	2,400,000	2,005,000		395,000		2,400,000	-
1/1/2025	2,400,000	2,070,000		330,000		2,400,000	-
1/1/2026	2,400,000	2,145,000		255,000		2,400,000	-
1/1/2027	2,400,000	2,220,000		180,000		2,400,000	-
1/1/2028	2,400,000	2,305,000		95,000		2,400,000	-
	36,000,000	28,290,000		7,710,000		36,000,000	-



Review: Formulating A Bid and a Rate of Return

- As a utility lowers its bid from the breakeven price of \$27,948,550, its debt service is lowered and savings are generated.
- How low a Utility bids will depend on the perceived risk in the prepayment and the utility's desire to receive an additional incentive payment.
- The following table shows the relationships between a lower bid price, spread over the utility's borrowing rate (the implied additional cost to Bonneville), and the savings realized by the utility.

Bid Price/Savings Sensitivity

Total bid	Spread Over Utility Financing Rate	Total Credits	Total Debt Service	Gross Savings	Savings %	BPA Implied Cost of Capital
27,953,525	0.00%	36,000,000	36,000,000	-	0%	3.32%
27,122,700	0.42%	36,000,000	34,891,744	1,108,256	3%	3.73%
25,983,425	1.02%	36,000,000	33,438,293	2,561,707	7%	4.34%
25,147,625	1.49%	36,000,000	32,370,458	3,629,542	10%	4.80%

(1) Gross savings as a percentage of total credits



Credit Risk

- Participants have made it clear that they need some sort of price guarantee and risk mitigation for credit risk.
- Several approaches to mitigate customer credit risk were reviewed and we propose the following solution.
- BPA offers an “off ramp” if credit spreads increase over a predetermined amount.
 - When customers bid on a block of credits, they would include a purchase price and an assumed credit spread over Treasuries.
 - If a Utility’s credit spread exceeds 25 bps over the stated credit spread at a date determined in the future (may be the pricing date if a Utility is issuing bonds), customers could elect to take an “off ramp” and not participate in the prepayment program and BPA would reimburse the utility for all reasonable out-of-pocket expenses
 - If a Utility’s credit spread is below the 25 bps over the stated credit spread at a date determined in the future, customers would complete the transaction.
 - The predetermined date may be rescheduled with BPA’s consent if a Utility determines that it may be advantageous to it.
 - Customers benefit if the credit spread is below the set threshold assuming they priced it into their initial bid.
 - This approach would guarantee a level of savings to customers assuming they adjusted their initial bid to cover the credit risk and add the potential for additional savings if the actual credit spread is lower than 25 bps versus the initial bid.



Adjusting the Bid for Credit Risk

	Total bid	BPA Spread Over Utility Financing Rate	Total Credits	Total Debt Service	Gross Savings	Savings %	BPA Implied Cost of Capital	Utility Cost of Capital
Baseline (10% base savings)	25,147,625	1.49%	36,000,000	32,370,458	3,629,542	10.1%	4.80%	3.32%
1 25 bps increase in credit spread <i>No cushion included</i>	25,147,625	1.24%	36,000,000	32,963,987	3,036,013	8.4%	4.80%	3.57%
2 25 bps increase in credit spread <i>Full cushion included</i>	24,679,975	1.51%	36,000,000	32,355,965	3,644,035	10.1%	5.07%	3.57%
3 No increase in spread <i>Full cushion included</i>	24,679,975	1.76%	36,000,000	31,773,486	4,226,514	11.7%	5.07%	3.32%

- Utilities might adjust their bids for credit spread risk and build in a “cushion” in their bid
 - Not including a cushion exposes a Utility to a 1.7% decrease to their baseline savings target should credit spreads increase by 25 bps
 - To fully absorb a 25 bps increase in credit spreads, a Utility would reduce their bid by from \$25.1 million reduced to \$24.7 million.
 - A 25 bps increase would return the savings to the baseline target
 - Anything less than a 25 bps increase in credit spreads would provide additional savings above baseline target
- The more cushion is included, the more likely the bid will be uncompetitive
 - Utility runs risk of being excluded from program



Credit Spread Risk vs. Bid Matrix

% Savings Shown in Matrix

Assumes Baseline savings of 10.1%

Credit Spread Increase

Cushion Included in Bid	Bid Amount	Credit Spread Increase						
	(\$ 000's)	No Movement	+5 bps	+10 bps	+15 bps	+20 bps	+25 bps	
	\$25,148	No Cushion	10.1%	9.7%	9.4%	9.1%	8.8%	8.4%
	\$25,043	5 bps	10.5%	10.1%	9.7%	9.4%	9.1%	8.8%
	\$24,939	10 bps	10.8%	10.5%	10.1%	9.7%	9.4%	9.2%
	\$24,864	15 bps	11.1%	10.8%	10.5%	10.1%	9.7%	9.4%
	\$24,775	20 bps	11.4%	11.1%	10.8%	10.5%	10.1%	9.7%
	\$24,680	25 bps	11.7%	11.4%	11.1%	10.8%	10.5%	10.1%



Potential Power Rate Savings

- Participating in the prepayment program can lower the cost of power for a Utility.

Discount off of PF Rate (in \$/MWh) by Revenues and Number of Prepayment Blocks Purchased

Blocks Purchased	1	2	3	4	5	6	7	8	9	10
Prepayment (\$ Million)	\$ 6.3	\$ 12.6	\$ 19.0	\$ 25.3	\$ 31.6	\$ 37.9	\$ 44.3	\$ 50.6	\$ 56.9	\$ 63.2

RHWM (aMW)	Monthly Revenues		Dollar (\$/MWh) Discount off of a Melded PF Rate											
	(\$ Million)													
820	20		\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.09	\$ 0.10		
560	14		\$ 0.01	\$ 0.03	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.08	\$ 0.10	\$ 0.11	\$ 0.12	\$ 0.14		
540	13		\$ 0.01	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.12	\$ 0.13	\$ 0.15		
520	11		\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.12	\$ 0.14	\$ 0.16	\$ 0.17		
410	10		\$ 0.02	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.11	\$ 0.13	\$ 0.15	\$ 0.17	\$ 0.19		
330	8		\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.10	\$ 0.12	\$ 0.14	\$ 0.17	\$ 0.19	\$ 0.22	\$ 0.24		
260	7		\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.11	\$ 0.14	\$ 0.16	\$ 0.19	\$ 0.22	\$ 0.25	\$ 0.27		
210	5		\$ 0.04	\$ 0.08	\$ 0.11	\$ 0.15	\$ 0.19	\$ 0.23	\$ 0.27	\$ 0.31	\$ 0.34	\$ 0.38		
170	4		\$ 0.05	\$ 0.10	\$ 0.14	\$ 0.19	\$ 0.24	\$ 0.29	\$ 0.33	\$ 0.38	\$ 0.43	\$ 0.48		
120	3		\$ 0.06	\$ 0.13	\$ 0.19	\$ 0.25	\$ 0.32	\$ 0.38	\$ 0.45	\$ 0.51	\$ 0.57	\$ 0.64		
90	2		\$ 0.10	\$ 0.19	\$ 0.29	\$ 0.38	\$ 0.48	\$ 0.57	\$ 0.67	\$ 0.76	\$ 0.86	\$ 0.96		
50	1		\$ 0.19	\$ 0.38	\$ 0.57	\$ 0.76	\$ 0.96	\$ 1.15	\$ 1.34	\$ 1.53	\$ 1.72	\$ 1.91		

Assumptions

- Utilities are able to finance at 3% all in
- Market Clearing Price bid is at 5% (6.3 million per block), and there is zero interest rate adjustment between award and funding.
- Therefore the incentive per block is the difference between the \$50,000 credit and the debt service at 3%.
- Assume BP-12 Melded PF Rate of \$30.17 (implied discount could differ depending on Tier 2 amounts, or slice versus load following product)

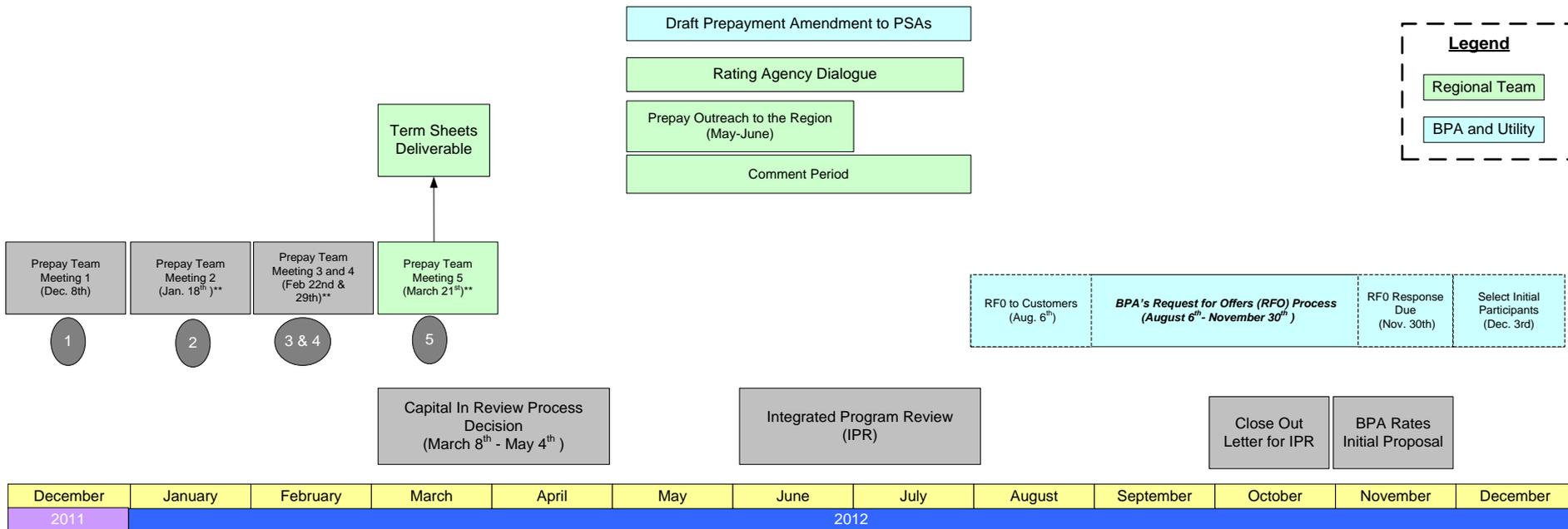


Draft Rating Agency Packet

- Please see additional handout



Updated Overview Timeline



* Assumes that a customer issues tax-exempt bonds to fund the power prepayment and therefore a Private Letter Ruling is required from the IRS
 ** Meetings 3-5 are currently scheduled to be held at Tacoma Power
 *** Funding for utilities that issue debt would be in April/May 2013

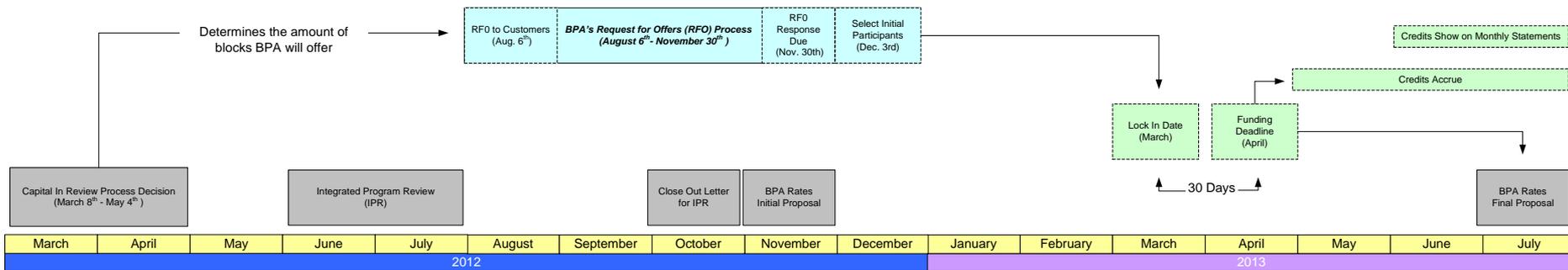
Meeting Objectives

- 1 (1) Introduced the principles and base structure (2) Defined expectations and agreed upon meeting protocol
- 2 (1) Review power rate analysis (2) Discuss term sheet (3) Invite banker reaction and feedback to the base case
- 3 (1) Revised term sheet (2) Alternative auction proposal (3) Risk assessment
- 4 (1) Term sheet (2) Auction process (3) Federal and state law (4) Proposed rating agencies strategy
- 5 (1) Finalize term sheets (2) Draft rating agency presentation



Transaction Timeline

Transaction Milestones



Legend

- Selection Process
- Transaction Process
- BPA Rate Setting Process

Offramps for Utilities and BPA

Customer (YES)*	
BPA (YES)*	BPA (NO)**

* If BPA elects to take an offramp or if the customer elects to take an offramp and the difference between the awarded customer's "True Interest Cost" and the value of 10-year Treasury obligations has increased by more than 100 basis points, then BPA will reimburse the customer for all reasonable out-of-pocket costs it incurred after the date on which the offer was accepted.

** BPA has no option to take a offramp after the utilities "lock in date".



Next Steps

- Determine if we need an additional team meeting:
 - April 4th
 - April 11th
 - June: Post Rating Agency Meetings

- Finalize the Term Sheet

- Regional Team sub-group meetings with the Rating Agencies
 - Targeted May 24th and 25th

- Individual utility meetings with the Rating Agencies
 - APPA is schedule to be in Seattle in June

- BPA outreach to the region regarding the potential prepay program (May – June)

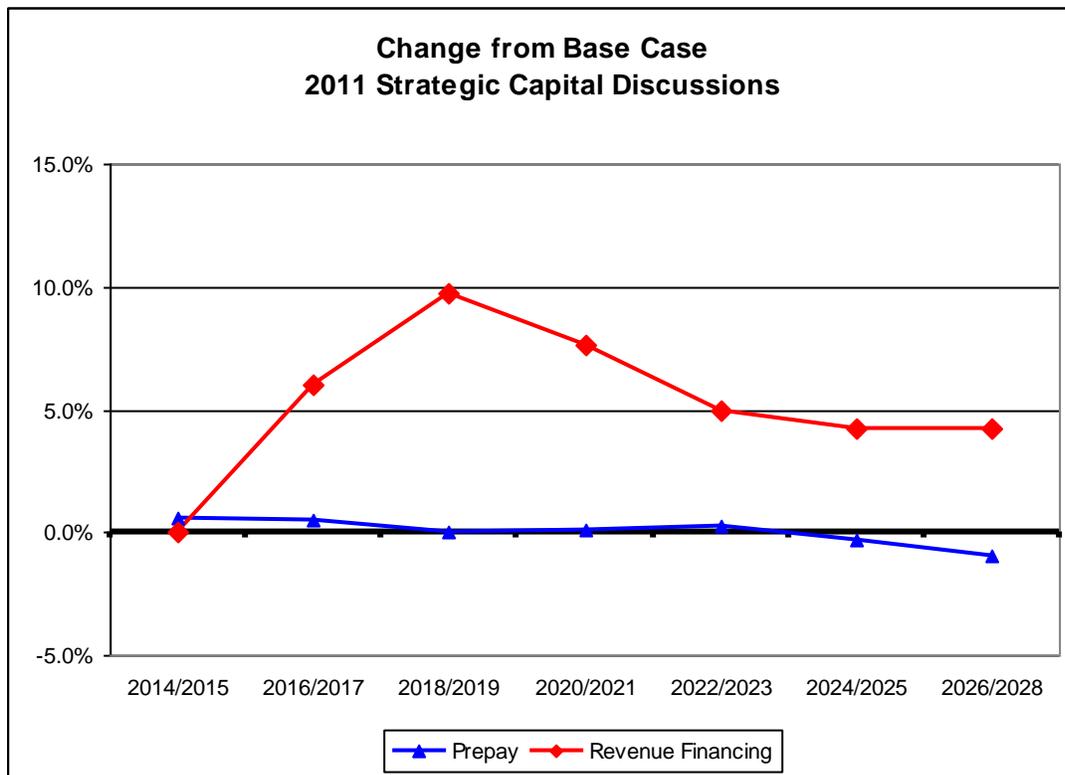
- BPA offers the prepay RFO in August



The Benefits of BPA's Proposed Power Prepayment Program for Non-Participants

BPA's proposed Prepayment for Power program should be attractive to our customers regardless of participation in the program because all customers benefit from the capital investments into the Federal Columbia River Power System (FCRPS). BPA's capital needs over the next 10 years far exceeds its ability to finance from Treasury, and assuming no further actions, BPA could exhaust its Treasury Borrowing Authority as early as 2016. BPA is conducting the Capital Investment Review (CIR) process to get customers input on the appropriate capital spending levels to rebuild and maintain our hydro infrastructure.

Given the capital needs detailed in the CIR process, and the non-discretionary nature of many of these needed investments, BPA is exploring customer interest in a Prepayment Program. Without a Prepayment for Power program, BPA may be forced to revenue finance a portion of the hydro capital budget to maintain reliability and avoid unsustainable O&M maintenance costs. In the fall of 2011, BPA presented material showing the projected rate impacts of revenue financing. The rate impacts for the near-term rate cases are shown below and reflect the application of anticipated accumulation of cash as reflected in the fall of 2011. These projections will be updated in the summer of 2012.



While the effect of significantly lower rates is the largest benefit to non-participating customers, there are other benefits as well. The Prepayment for Power program keeps the funding and transaction costs within the regional economy. It is in the spirit of the Regional Dialogue contracts – to keep, preserve, and share the benefits of the 75-year-old FCRPS – that this Prepayment Program was developed.

Prepayment for Power: A Market-Based Design

The Prepayment Regional Team evaluated three different ways to determine how customer bids will be awarded:

1. Announced Price. BPA announces the prepayment amount (“price”) it is willing to accept for a block of credits as a take-it-or-leave-it proposition. The announced price would be equal to or greater than BPA’s reservation price. If customers were to offer a greater number of blocks than BPA desired, BPA would accept a prorated number of blocks from each customer at proffered price.
2. As-Bid Price. BPA solicits offers of prices per block. BPA accepts the highest priced offers (largest prepayment per block) which in aggregate provide BPA with the amount of prepayments it seeks, provided that the price does not exceed BPA’s reserve price. Each accepted offer is accepted at the offered (“as-bid”) price so that it is virtually certain that some customers will pay a higher price than others.
3. Market-Clearing Price. Similar to 2, BPA solicits offers of prices per block. BPA accepts the highest priced offers (largest prepayment per block) which in aggregate provide BPA with the amount of prepayments it seeks, provided that the price does not exceed BPA’s reserve price. In contrast to 2 however, BPA pays the same price (market clearing price) for each block accepted. The market clearing price per block will be the lowest “priced” (prepayment amount for a block) offer, which, together with all other Offers at an equal or higher price, provides BPA with no more than the aggregate amount of prepayments it determines is appropriate. In other words, prepaying customers whose offers are accepted will all pay the same price even if they offered a price that was greater than the market clearing price.

At first, reaction to these three alternatives was mixed. Some felt that a single Market-Clearing Price would “leave money on the table,” since those who bid higher than the market-clearing price were willing to pay more for participation. Under this view, such an outcome did not seem “least cost” to BPA and regional rate payers. Since it is expected that participants could have significantly different cost of funds and different incentive levels required, it seemed reasonable to some that different participants pay different (As-Bid) prices.

On the other hand, some customers who were potentially interested in participating in the program reacted against the As-Bid approach. They argued that unequal prices paid for the same product would be a *non-starter* and would substantially suppress program participation. Take for example the case that utility A offered to prepay \$6 million to BPA for a block of credits and utility B offered to prepay \$5 million for the same block. If both utilities were selected to participate, Utility A would be shown forthrightly to have bid in at greater price than BPA had elsewhere agreed to pay. This problem would be politically acute due to ready comparison with the similarly situated winning customers that bid in at the lower prices. Such a potential outcome was asserted to be a political risk individual utilities would not be willing to accept.

As an alternative, it was proposed that BPA simply announce the price per block, and potential participants could accept or decline. However, BPA believes that this would result in the highest overall program cost because the price set could be lower than what customers are willing to pay.

Balancing these perspectives, and based on input from BPA's FA, BPA stated that its preferred structure was for an auction in which a single Market-Clearing Price would be established and applied uniformly to all participants whose bids are accepted. For the most part, this Market-Clearing Price approach seemed reasonable to the members of the Regional Prepayment Team. Certain otherwise apprehensive customer reps were somewhat mollified that BPA had reserve price control and rights to reject offers that would enable BPA to control overall program costs.

That said, there are potential pros and cons associated with this Market-Clearing Price design which could use elaboration.

Pros

1. Fairness – all participants whose bids are selected pay the same price for each block.
2. Transparency – the market clearing price is openly disclosed by BPA increasing transparency of the program.
3. Efficient – the auction process reveals a competitive Market-Clearing Price, and results in a lower program cost than a price announced in advance by BPA.
4. Unbiased – selects winning bidders based on objective factors which are designed to minimize electric rates.
5. Feasible – unlike the As-Bid Price approach, the Market-Clearing Price approach appears to be acceptable to potential participants.
6. Cost effective – BPA will have a reservation that the all accepted bids have to meet, ensuring that BPA's implied cost is within an acceptable range.

Potential Cons

1. "Big utility/PUD preference" – generally larger preference customer participants with higher credit ratings (lower costs to fund) are likely to realize a higher net economic benefit from participation.
2. "Leaves money on the table" – some argue that a Market-Clearing Price approach would yield a higher program cost compared to an As-Bid Price approach, though the program suppression concerns of an As-Bid model are problematic
3. "Higher Implied Cost" – BPA will overpay for portions of the prepayments if customers are willing to pay a higher price than the market clearing price for each block of power

ATTACHMENT E
TERM SHEETS AND RELATED MATERIALS

DRAFT - PREPAYMENT TERM SHEET

This Term Sheet provides key contract terms and does not address program implementation issues such as such selection of participants and prerequisites for submitting proposals.

1. Customer prepays to BPA an agreed dollar amount of its expected aggregate requirements power purchases at Tier 1 rates under the new long-term CHWM (Regional Dialogue) power sales contract (“**Prepayment Amount**”).
2. The pre-purchase is **not** for a specified block of power (for example, the prepayment would not be for 50 HLH average megawatt portion of the expected power service at Tier 1 rates).
3. Upon receipt of funds, BPA is obligated to comply with a schedule of fixed monthly reductions or “**Prepayment Credits**” to the monthly amounts that would otherwise be due and payable but/for the prepayment.
4. The prepayment agreement is effected by an amendment to the **payment terms** of existing power sales contracts. All other provisions of the power sales contract are unchanged. Customer’s cash payment obligation for power is defined to mean the amount owing net of the available Prepayment Credits in the payment month and BPA has no ability or right to “withhold” the application of accrued credits for any reason.
5. Prepayment Credits accrue for power provided in the first full calendar month following the date that the prepayment is made and accrue in accordance with the fixed schedule for Prepayment Credits in each subsequent month throughout the then-remaining term of the power sales contract.
6. The Prepayment Credits are separately noted on the customer billing statements as a credit and discount for prepayment.
7. The Prepayment Credits are based on a mutually agreed prepayment discount that includes (i) a debt service component matched to the customer’s actual debt service (“**Debt Service Component of the Credits**”) to the extent customer issues debt to fund the prepayment, and (ii) an “**Incentive Payment Component**” proposed by customer and agreed to by BPA. To the extent a customer does not issue debt, the parties will use a “**Surrogate Debt Service**” schedule proposed by customer and acceptable to BPA as well as an Incentive Payment Component.
 - a. Actual debt service/Surrogate Debt Service is levelized throughout the remaining term of the CWHM power sales contract and the Debt Service Component of the Prepayment Credits is matched identically to scheduled debt service.
 - b. For each debt service payment period (presumably six months), the sum of the of the related six months’ of the Debt Service Component of the Credits will equal the actual scheduled debt service due on the debt service payment date. Similar treatment for Surrogate Debt Service.
 - c. Where debt is issued, all reasonable costs of issuance are included in calculating the Prepayment Credit stream. Customer will commit to financing the costs of issuance.
 - d. Since BPA is agreeing to provide Prepayment Credits tied to actual debt service costs, BPA has the ability to downsize a prepayment bond sale and to consent to

bond pricing and structure to meet program objectives (e.g., BPA may not be willing to pay up 50bp across the scale of bonds to obtain an incremental \$10 million in prepayments).

- e. The schedule of monthly Prepayment Credits also includes an “**Incentive Payment Component**” proposed by customer and agreed to by BPA.
 - f. The Incentive Payment Component is scheduled as an equal monthly dollar amount throughout the remaining term of the CHWM power sales contract.
8. **Cash True Up.** In the unlikely event that the customer’s scheduled Prepayment Credits for a month are greater than the customer’s purchases of power at Tier 1 rates, the accrued but untaken credits will accumulate to be used against succeeding months’ power purchases for a limited time (Credit Accumulation Period) not to exceed 6 months.
 9. If, at the end of a Credit Accumulation Period, there is a balance of accumulated-but-unused Prepayment Credits, BPA is obligated, unconditionally, to pay cash to the customer in an amount equal to the accumulated-but-unused Prepayment Credits.
 10. Late or nonpayment of a cash true up when due is subject to a late payment interest charge but no interest charge will arise for the accumulation of unapplied Prepayment Credits during a Credit Accumulation Period.
 11. BPA will need an earnest money or similar commitment from a customer selected for prepayment to help assure that the customer proceeds to consummation of the proposed prepayment.
 12. There is no provision for BPA to cease crediting. Breach and default of CHWM power sales are addressed in the underlying CHWM power sales contract. The underlying power sales contract specifies the obligations for the provision and acceptance of the electric power that is prepaid, and there is no alteration of the contract terms other than payment.
 13. The **schedule** of credits is fixed (as opposed to the accumulation and use of accrued-but-untaken credits) and is not subject to change. Credits are not subject to acceleration, including into a lump sum cash payment obligation by BPA, for any reason including power sales default by BPA.
 14. BPA does not guarantee payment of any bonds but customer is free to pledge BPA’s cash payment obligation for unused Prepayment Credits to the payment of any bonds.
 15. Discuss: Assignment of credits to other Preference Customers, coverage of customer expenses if no bond sale despite best efforts; provisions, if any, to reflect refinancing of bonds.

PREPAYMENT TERM SHEET

Request for Offers / Transparent Auction

1. **Request for Offers from Preference Customers.** BPA will issue a Request for Offers (“RFO”) soliciting offers from BPA’s preference customers to prepay for electricity.
 - (a) **Preference Customers.** Offers may be submitted by any preference customer who has executed a power sales agreement (“PSA”) with BPA to purchase electricity through September 30, 2028.
 - (b) **Timeline.** BPA expects to issue the RFO in the early summer of 2012. The RFO will specify a deadline for submitting offers, currently expected to be some time in October of 2012. The RFO also will specify a deadline for Prepayments to be made, currently expected to be some time in March of 2013.
 - (c) **Value of Electricity Available for Purchase through Prepayments.** The RFO will invite preference customers to offer to prepay for electricity in discrete increments (“Blocks”). Each Block will represent the right to receive \$50,000 value of electricity from BPA each month through September 2028.

2. **Schedule of Value of Electricity to Be Delivered by BPA Each Month.** Each successful offeror (“Prepaying Customer”) will be entitled to monthly reductions (“Prepayment Credits”) to the amount that otherwise would be due and payable with respect to the Prepaying Customer’s purchases of electricity from BPA. In return, the Prepaying Customer will make a single cash payment (“Prepayment”) to BPA.
 - (a) **Fixed Value of Electricity.** The Prepayment will not be for a fixed quantity of electricity. Rather, the Prepayment will entitle the Prepaying Customer to receive from BPA a fixed monthly *value* of electricity.
 - (b) **Prepayment Credits May Not Be Assigned.** Apart from the deemed assignment of Prepayment Credits described below, Prepaying Customers will not be permitted to assign electricity or Prepayment Credits to any other person.

3. **Auction Process.**
 - (a) **Blocks.** Preference customers will submit offers to purchase multiple Blocks. Preference customers must submit a separate offer for each Block. A preference customer may (but need not) offer a different price for each Block.
 - (b) **Offers Limited.** Preference customers may not submit offers for Blocks representing an aggregate monthly value of electricity exceeding the lesser of
 - (i) 50% of the Prepaying Customer’s average monthly payment to BPA for purchases of electricity since October 1, 2011; or
 - (ii) 75% of the Prepaying Customer’s smallest monthly payment to BPA for purchases of electricity since October 1, 2011.
 - (c) **Minimum Prepayment.** None of a preference customer’s offers will be accepted unless its offers are accepted for a total of at least four (4) Blocks.
 - (d) **Price Paid for Accepted Offers.** Bonneville is considering two alternative approaches to establishing the price for accepted offers:
 - **Pricing Alternative #1: “As Bid” Pricing.** The price paid for each Block will equal the price offered for that Block by the Preference Customer whose offer is accepted.
 - **Pricing Alternative #2: Market-Clearing Auction Price.** The market-clearing auction price per Block will apply to all accepted offers.

4. **Funding Prepayments.**
 - (a) **Timing.** The Prepayment must be made on or before the date on which the first Prepayment Credit accrues.
 - (b) **Source of Funding.** Preference customers whose offers are accepted will have flexibility to fund their Prepayments from whatever source they choose (*e.g.*, cash on hand; issuance of debt).
5. **Amendment to Existing PSAs.** The transactions will be effected by amendments to the payment terms of the existing PSAs. All other provisions of the existing PSAs will remain unchanged.
 - (a) **BPA's Obligation to Honor Prepayment Credits and to Remit Cash Unconditional.** There will be no provision for BPA to cease crediting or to cease remarketing excess electricity for the account of the Prepaying Customer. BPA will have no right for any reason to "withhold" the application of accrued Prepayment Credits or to withhold remittances of cash from BPA's remarketing of electricity for the account of the Prepaying Customer.
 - (b) **Monthly Billing Statements.** Prepayment Credits, any credits from the deemed assignment of unused Prepayment Credits, and any required cash remittances will be separately noted on the Prepaying Customer's monthly billing statements.
 - (c) **Remedies in the Event of a BPA Breach.** Any failure by BPA honor its contractual obligations to give effect to accrued Prepayment Credits, to provide credits, or to remit cash to or for the account of the Prepaying Customer will be reducible to a money judgment against BPA for non-performance. Prepayment Credits will not be subject to acceleration (*e.g.*, there will be no lump sum cash payment obligation by BPA) for any reason, including any BPA default in its contractual obligation to deliver electricity.
6. **Deemed Assignment of Prepayment Credits.** In the unlikely event that a Prepaying Customer's accrued Prepayment Credits are greater than its purchases of electricity from BPA, the Prepaying Customer will be deemed to have assigned the unused Prepayment Credits to other preference customers, and BPA either will credit the Prepaying Customer with the value of those Prepayment Credits or will remit cash to the Prepaying Customer in amount equal to those Prepayment Credits.
7. **Accumulation of Any Accrued but Unused Prepayment Credits.** Any accrued Prepayment Credits which are not applied to purchases of electricity during the month will be applied to purchases of electricity during future months. There will be no limit on the period during which accrued but unused Prepayment Credits may accumulate. No interest charge will arise with respect to the accumulation of accrued but unused Prepayment Credits.
8. **Performance Deposit.** BPA will require a \$5,000 per Block earnest money deposit or similar commitment from each preference customer whose offer for Prepayment is accepted.
9. **No BPA Financial Guarantee.** BPA will not guarantee the payment of principal of or interest on any debt issued by or for the benefit of any Prepaying Customer to fund its Prepayment. But the Prepaying Customer will be free to pledge BPA's remittances of cash reflecting BPA's sales of electricity for the account of the Prepaying Customer.

PREPAYMENT TERM SHEET

Request for Offers / Transparent Auction

1. **Request for Offers from Preference Customers.** BPA will issue a Request for Offers (“RFO”) soliciting offers from BPA’s preference customers to prepay for electricity purchased from BPA.
 - (a) ***Preference Customers.*** Offers may be submitted by any preference customer who has executed a power sales agreement (“PSA”) with BPA to purchase electricity through September 30, 2028. Offerors may have a load-following PSA, a block power PSA, or a slice/block PSA.
 - (b) ***Timeline.*** BPA expects to issue the RFO in the early summer of 2012. The RFO will specify a deadline for submitting offers, currently expected to be some time in October of 2012. The RFO also will specify a deadline for Prepayments to be made, currently expected to be some time in March of 2013.
 - (c) ***Value of Electricity Available for Purchase through Prepayments.*** The RFO will invite preference customers to offer to prepay for electricity in discrete increments (“Blocks”). Each Block will represent the right to receive \$50,000 value of electricity from BPA each month commencing on a date specified in the RFO (which date shall be no later than 120 days after BPA’s acceptance of offers, and currently is expected to be approximately March 1, 2012) and ending September 30, 2028. The RFO will specify the maximum number of Blocks offered. BPA expects the maximum value of electricity to be offered each month to be between \$2,250,000 (45 Blocks) and \$3,000,000 (60 Blocks). *[Please Note: level monthly amortization of \$300,000,000 of debt issued on March 1, 2013 and maturing on October 1, 2028, with a 5.75% yield, corresponds to approximately \$2,433,000 of debt service per month.]*

2. **Schedule of Value of Electricity to Be Delivered by BPA Each Month.** Each successful offeror (“Prepaying Customer”) will be entitled to monthly reductions (“Prepayment Credits”) to the amount that otherwise would be due and payable with respect to the Prepaying Customer’s purchases of electricity from BPA from approximately March 1, 2013 through September 30, 2028. In return, the Prepaying Customer will make a single cash payment (“Prepayment”) to BPA no later than the date on which Prepayment Credits first become available. Prepayment Credits will entitle the actual or deemed owner to receive delivery of a specified value of electricity from BPA each month.
 - (a) ***Fixed Value of Electricity.*** The Prepayment will not be for a fixed quantity of electricity. Rather, the Prepayment will entitle the Prepaying Customer (or any deemed assignee of Prepayment Credits) to receive from BPA a fixed monthly *value* of electricity, valued at BPA’s rates which apply to the customer taking delivery at the time of delivery. The schedule of value of electricity to be delivered each month will be fixed and will not be subject to change.
 - (b) ***Electricity May Not Be Assigned.*** Apart from the deemed assignment of Prepayment Credits under circumstances described in Paragraph 5(a) and Paragraph 6, Prepaying Customers will not be permitted to assign electricity or Prepayment Credits to any other person.

3. **Auction Process.**
 - (a) ***Blocks.*** Preference customers will submit offers to purchase multiple Blocks, subject to the limits described in Paragraph 3(b) and Paragraph 3(c). Preference

- customers must submit a separate offer for each Block. A preference customer may (but need not) offer a different price for each Block.
- (b) **Offers Limited.** Preference customers may not submit offers for Blocks representing an aggregate monthly value of electricity exceeding the lesser of
- (i) 50% of the Prepaying Customer's average monthly payment to BPA for purchases of electricity since October 1, 2011; or
 - (ii) 75% of the Prepaying Customer's smallest monthly payment to BPA for purchases of electricity since October 1, 2011.
- (c) **Minimum Prepayment.** None of a preference customer's offers will be accepted unless its offers are accepted for a total of at least four (4) Blocks.
- (d) **Market Rate Adjustment.** The Prepayment amount to be paid by selected offerors will be the ["as bid" price] [market clearing price] (*see* Paragraph 3(g)), adjusted to reflect the change in value of 10-year U.S. Treasury obligations between (i) the deadline for submitting offers, and (ii) the earlier of (x) the date as of which the offeror notifies BPA that the offeror elects to lock in the market-rate adjustment (which date shall not be earlier than three (3) business days following the date of the notice), and (y) the day immediately preceding the date on which BPA receives the Prepayment from the offeror; provided, however, that this adjustment shall not exceed a percentage announced by BPA when offers are selected ("Adjustment Cap") as described in Paragraph 3(f)(ii)(B).
- (e) **Certification of Independent Offer(s).** Each offer must include a certification substantially in the form attached as Appendix A.
- (f) **Evaluation and Acceptance of Offers.**
- (i) When the deadline for submitting offers is reached, BPA will evaluate the offers received to determine (A) which offers conform to the RFO, and (B) what portion of the conforming offers (if any) will be accepted, up to the maximum amount specified in the RFO. This evaluation will be made without regard to how an offeror funds its Prepayment.
 - (ii) BPA will have discretion to advise any preference customer which has submitted a nonconforming offer(s) of the way(s) in which its offer(s) fails to conform to the RFO, in which case the offeror may submit a revised offer(s); provided that any such revised offer(s) must be submitted to BPA no later than three (3) hours after the original deadline for submitting offers.
 - (iii) Within 24 hours after the original deadline for submitting offers, BPA will announce (A) the number of Blocks BPA will sell, (B) the Adjustment Cap, and (C) the lowest price per Block of any accepted offer.
 - (iv) If offers are made for more than one Block at the lowest price accepted, and if BPA's announcement of the number of Blocks it will purchase would result in BPA accepting fewer than all offers to purchase Blocks at that lowest price, BPA will select the accepted offer(s) at that lowest price by lottery.
- (g) **Price Paid for Accepted Offers.** Bonneville is considering two alternative approaches to establishing the price for accepted offers:
- **Pricing Alternative #1: "As Bid" Pricing.** The price paid for each Block will equal the price offered for that Block by the Preference Customer whose offer is accepted.
 - **Pricing Alternative #2: Market-Clearing Auction Price.** The market-clearing auction price per Block will apply to all accepted offers.

4. **Funding Prepayments.**

- (a) **Timing.** The Prepayment must be made on or before the date on which the first Prepayment Credit accrues, as specified in the RFO. This is expected to be approximately March 1, 2013.
- (b) **Source of Funding.** Preference customers whose offers are accepted will have flexibility to fund their Prepayments from whatever source they choose (*e.g.*, cash on hand; issuance of debt).
- (c) **Offeror Offramp.** Preference customers whose offers are accepted will be excused from making the cash Prepayment and will be entitled to a return of their performance deposit (*see* Paragraph 8) if, between the deadline for submitting offers and the deadline for making the Prepayment, (I) the Adjustment Cap takes effect, (II) conditions arise which would allow termination of underwriters' obligation to purchase bonds under a standard firm commitment underwriting agreement, or (III) *[additional Offeror Offramps - to come]*.
- (d) **BPA Offramp.** BPA will be excused from its obligation to provide electricity and associated Prepayment Credits for any reason and without cause at any time before the end of the Prepaying Customer's market rate adjustment period described in Paragraph 3(d)(ii). If BPA exercises this termination right, BPA will (I) return the offeror's performance deposit (*see* Paragraph 8), and (II) reimburse the offeror for all reasonable out-of-pocket costs incurred after the date on which the offer was accepted. Under no circumstances will BPA be excused from its obligations to provide electricity and associated Prepayment Credits to a Prepaying Customer after the Prepayment is funded.

5. **Amendment to Existing PSAs.** The transactions will be effected by amendments to the payment terms of the existing PSAs. All other provisions of the existing PSAs will remain unchanged.

- (a) **Amendment to Prepaying Customer's Monthly Cash Payment Obligation.** A Prepaying Customer's obligation to pay cash for electricity purchased from BPA will be redefined to mean the amount owing net of available Prepayment Credits in the payment month. To the extent accrued Prepayment Credits for a month exceed the Prepaying Customer's cash payment obligation for electricity purchased during the month, BPA will:
 - (i) deem those Prepayment Credits to be assigned to BPA's other customers, as described in Paragraph 6, to the extent of purchases by BPA's other customers during the month;
 - (ii) apply the deemed assigned Prepayment Credits to those other customers' purchases of electricity in value equal to the deemed assigned Prepayment Credits, and
 - (iii) credit the Prepaying Customer with the value of the deemed assigned Prepayment Credits.
- (b) **BPA's Obligation to Remit Cash.** If the amount of credits described in Paragraph 5(a)(iii) for a month exceeds the amount required to offset all payment obligations of the Prepaying Customer to BPA under its PSA for the month, then on the payment date described in Section 16.2 of its PSA, BPA will remit the excess amount as cash to the Prepaying Customer or its designee.
- (c) **BPA's Obligation to Honor Prepayment Credits and to Remit Cash Unconditional.** There will be no provision for BPA to cease crediting as described in Paragraph 5(a) or to cease remitting cash to or for the account of the Prepaying Customer as described in Paragraph 5(b). BPA will have no right for

any reason to “withhold” the application of accrued Prepayment Credits under the circumstances described in Paragraph 5(a) or to withhold remittances of cash under the circumstances described in Paragraph 5(b).

- (d) **Monthly Billing Statements.** Prepayment Credits, and any credits from the deemed assignment of accrued but unused Prepayment Credits as described in Paragraph 5(a)(iii), will be separately noted as credits on the Prepaying Customer’s monthly billing statements. Any cash remittances required under Paragraph 5(b) also will be separately noted on the Prepaying Customer’s monthly billing statements.
 - (e) **Remedies in the Event of a BPA Breach.** Any failure by BPA honor its contractual obligations to give effect to accrued Prepayment Credits, to provide credits as described in Paragraph 5(a), or to remit cash to or for the account of the Prepaying Customer as described in Paragraph 5(b) will be reducible to a money judgment against BPA for non-performance. Remedies in the event of any other breach of BPA’s contractual obligation to deliver electricity already are addressed in the existing PSAs. Prepayment Credits will not be subject to acceleration (*e.g.*, there will be no lump sum cash payment obligation by BPA) for any reason, including any BPA default in its contractual obligation to deliver electricity.
6. **Deemed Assignment of Prepayment Credits.** In the unlikely event that a Prepaying Customer’s accrued Prepayment Credits for a month are greater than the Prepaying Customer’s purchases of electricity from BPA during the month, the Prepaying Customer will be deemed to have assigned the accrued but unused Prepayment Credits, as follows.
- (a) **Deemed Assignment of Prepayment Credits by Prepaying Customers Who Are Qualified Utilities.** If the Prepaying Customer is a public body with a retail service area which the Prepaying Customer has served continuously for at least five (5) consecutive years (a “Qualified Utility”), the accrued but unused Prepayment Credits will be deemed assigned first to other Qualified Utilities to the extent of their purchases of electricity from BPA during the month, with any remaining accrued but unused Prepayment Credits deemed assigned to other BPA customers to the extent of their purchases of electricity from BPA during the month.¹
 - (b) **Deemed Assignment of Prepayment Credits by Prepaying Customers Who Are Not Qualified Utilities.** If the Prepaying Customer is not a Qualified Utility, the accrued but unused Prepayment Credits will be deemed assigned first to BPA customers who are not Qualified Utilities to the extent of their purchases of electricity from BPA during the month, with any remaining accrued but unused Prepayment Credits deemed assigned to Qualified Utility BPA customers to the extent of their purchases of electricity from BPA during the month.
 - (c) **Credits and Cash Remittances in Connection with Deemed Assignment of Prepayment Credits.** On the date when a Prepaying Customer’s payments are due under Section 16.2 of its PSA, BPA will (i) credit the Prepaying Customer with the value of any accrued but unused Prepayment Credits which are deemed assigned to other BPA customers under the circumstances described in Paragraph 5(a)(iii), or (ii) remit cash to the Prepaying Customer or its designee in amount equal to any accrued Prepayment Credits which were deemed assigned to other BPA customers under the circumstances described above in Paragraph 5(b).

¹ If tax-exempt financing becomes available to fund Prepayments by Qualified Utilities, this will help meet the IRS safe harbor rule set forth in Treas. Reg. §1.148-1(e)(2)(iii)(B).

BPA's obligation to remit cash to Prepaying Customers pursuant to this Paragraph 6(c) will be limited to BPA's receipts during the month from its sales of electricity.

- (d) **Example.** Several examples of the deemed assignment of accrued but unused Prepayment Credits are attached as Appendix B.
7. **Accumulation of Any Accrued but Unused Prepayment Credits.** Any accrued Prepayment Credits which are not applied to purchases of electricity during the month, as described in Paragraph 6, will be applied to purchases of electricity during future months. There will be no limit on the period during which accrued but unused Prepayment Credits may accumulate. No interest charge will arise with respect to the accumulation of accrued but unused Prepayment Credits.
8. **Performance Deposit.** BPA will require a \$5,000 per Block earnest money deposit or similar commitment from each preference customer whose offer for Prepayment is accepted to ensure that the preference customer will in fact make the offered Prepayment, except under conditions described in Paragraphs 4(c) and 4(d).
9. **No BPA Financial Guarantee.** BPA will not guarantee the payment of principal of or interest on any debt issued by or for the benefit of any Prepaying Customer to fund its Prepayment. The official statement or other document used to offer any debt issued by a Prepaying Customer to fund its Prepayment must include the following legend: *"The [bonds] are not a debt or other obligation of Bonneville Power Administration, and the [bonds] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund."* But the Prepaying Customer will be free to pledge BPA's remittances of cash reflecting BPA's sales of electricity for the account of the Prepaying Customer described in Paragraph 5(b).

APPENDIX A

CERTIFICATION OF INDEPENDENT OFFER(S)

The undersigned hereby certifies as follows in connection with the offer(s) (the “Offer(s)”) submitted by [_____] (the “Offeror”) in response to the Request for Offers of Bonneville Power Administration (“BPA”), dated [_____], 2012 (the “RFO”):

1. The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Certification of Independent Offer(s) on behalf of the Offeror.
2. The undersigned participated actively in the Offeror’s preparation of the Offer(s), including the decision as to the price(s) to be included in the Offer(s).
3. In preparing and submitting the Offer(s), neither the Offeror nor any officer or employee of the Offeror directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.
4. To the best of the knowledge and belief of the undersigned, no individual who has provided consulting services to the Offeror in connection with the Offeror’s preparation of the Offer(s) directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.

Date: _____, 2012

[NAME OF OFFEROR]

By: _____
[Title]

APPENDIX B

Example of BPA remarketing electricity for the account of a Prepaying Customer

Assume public body preference customer “M” makes a \$200 million Prepayment in return for which M becomes entitled to \$1.5 million of Prepayment Credits each month from October 1, 2012 through September 30, 2028 (16 years). No other preference customer makes any Prepayment. Assume further that M’s payments to purchase electricity from BPA under the new PSA since it took effect on October 1, 2011, have averaged \$4 million per month.²

Scenario #1 (Base Case): M’s purchases from BPA under its PSA in a particular future month (Month S) result in M being obligated to pay BPA \$4.0 million on the next monthly payment date. All \$1.5 million of M’s Prepayment Credits for Month S are credited against M’s obligation to make payment to BPA on the next payment date (the 20th of Month S+1). All electricity associated with the Prepayment for Month S is consumed by retail customers of M, a Qualified Utility.

Scenario #2 (Singular Reduction in M’s Purchases): M experiences a singular drop in load, resulting in a corresponding decline in M’s purchases of electricity from BPA in a particular future month (Month T). Consequently, M is obligated to pay BPA only \$0.5 million on the next monthly payment date (the 20th day of Month T+1). During Month T, other Qualified Utilities pay BPA an aggregate of \$100.0 million for their purchases of electricity.³

- \$0.5 million of M’s \$1.5 million Prepayment Credits for Month T are credited against M’s obligation to make payment to BPA on the next payment date (the 20th day of Month T+1).
- BPA credits the Prepaying Customer with an additional \$1.0 million, reflecting a deemed assignment of the remaining \$1.0 million of accrued Prepayment Credits for Month T to other Qualified Utilities.
- On the next payment date (the 20th day of Month T+1), BPA remits \$1.0 million of cash to M.
- All electricity associated with the Prepayment for Month T is consumed by retail customers of Qualified Utilities.

² This example assumes that M resembles Benton County PUD. Pages 28 and 29 of Benton County PUD’s September 26, 2011 Official Statement state that Benton County PUD initially expects to purchase ~192 aMW of electricity from BPA under its PSA at \$29.08 per MWh. (<http://emma.msrb.org/EP578215-EP453139-EP853118.pdf>.) This equals \$3,999,082 in a 30-day month.

The analysis would be similar (but less constrained) for Clark County PUD. Page 32 of Clark County PUD’s May 23, 2011 Official Statement states that Clark County PUD expects its annual payments to BPA to grow from \$98.8 million in 2012 to \$105.4 million in 2015. (<http://emma.msrb.org/ER468102-ER363656-ER760495.pdf>.) For 2012, this equals more than \$8 million per month.

³ Page A-9 of Appendix A to Energy Northwest’s Official Statement dated June 9, 2011, discloses that BPA on average received between \$125 million and \$146 million per month from sales of electricity to preference customers during BPA’s 2008, 2009 and 2010 Operating Years. BPA’s sales of electricity to preference customers historically have been ~80% to public body preference customers, all or substantially all of which are Qualified Utilities (*i.e.*, having established retail service areas in place for at least 5 continuous years). *[Please confirm.]*

Scenario #3 (Region-Wide Precipitous Loss of Loads): Unexpected technical innovation suddenly enables individual retail customers to generate electricity on-site at all-in costs far below BPA's Tier 1 rate and Tier 2 rate. Consequently, retail loads placed on M and other preference customers drop to only 20% of 2012 levels. This results in an 80% reduction in each preference customer's obligation to purchase electricity from BPA. BPA's rates are not yet adjusted to reflect this change. M's purchases from BPA in a particular month after that technical innovation is implemented (Month V) result in M being obligated to pay BPA only \$0.8 million on the next monthly payment date. During Month V, other Qualified Utilities pay BPA an aggregate of \$20.0 million for their purchases of electricity.

- \$0.8 million of M's \$1.5 million accrued Prepayment Credits for Month V are credited against M's obligation to make payment to BPA on the next payment date (the 20th day of Month V+1).
- BPA credits the Prepaying Customer with an additional \$0.7 million, reflecting a deemed assignment of the remaining \$0.7 million of accrued Prepayment Credits for Month V to other Qualified Utilities.
- On the next payment date (the 20th day of Month V+1), BPA remits \$0.7 million of cash to M.
- All electricity associated with the Prepayment for Month V is consumed by retail customers of Qualified Utilities.

Scenario #4 (Region-Wide Natural Disaster): An vast earthquake or other natural disaster throughout the Pacific Northwest requires the sudden and permanent retirement of 90% of BPA's power supply resources. This results in a 90% pro rata reduction (i) in BPA's obligation to deliver electricity to preference customers pursuant to the PSAs, and (ii) in preference customers' obligation to purchase electricity from BPA pursuant to the PSAs. BPA's rates are not yet adjusted to reflect this change. M's purchases from BPA under the PSA in a particular month after that natural disaster (Month W) result in M being obligated to pay BPA only \$0.4 million on the next monthly payment date. During Month W, other Qualified Utilities with PSAs pay BPA an aggregate of \$10.0 million for their purchases of electricity.

- \$0.4 million of M's \$1.5 million accrued Prepayment Credits for Month W are credited against M's obligation to make payment to BPA on the next payment date (the 20th day of Month W+1).
- BPA credits the Prepaying Customer with an additional \$1.1 million, reflecting a deemed assignment of the remaining \$1.1 million of accrued Prepayment Credits for Month W to other Qualified Utilities.
- On the next payment date (the 20th day of Month W+1), BPA remits \$1.1 million of cash to M.
- All electricity associated with the Prepayment for Month W is consumed by retail customers of Qualified Utilities.

Scenario #5 (Sovereign Default): Congress enacts legislation directing the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation to sell their hydroelectric facilities to private investors free of any obligation to honor PSAs or other contracts entered into by BPA for the sale of electricity.

- From and after the date of sale of those hydroelectric facilities, BPA has no revenues from the sale of electricity, and the Prepayment Credits become worthless.

- All preference customers with PSAs have claims against BPA for money damages based on BPA's breach of contract.
- For preference customers who are Prepaying Customers, this includes claims against BPA for money damages based on BPA's failure to deliver electricity in respect of Prepayment Credits which accrue after the date of sale of those hydroelectric facilities.

ATTACHMENT F
COMPARITE SHOWING CHANGES
FROM DRAFT REQUEST FOR OFFERS
TO FINAL REQUEST FOR OFFERS

The following encapsulates and explains changes in the provisions of the final RFO (and Appendices) compared to the Draft RFO (and Appendices). A comparative version of the changes follows. Many changes are stylistic and are not explained. Certain changes are repeated throughout the Final RFO (and appendices) and a separate explanation for each instance of a repeated change may not be provided.

RFO

Paragraph 1. The Final RFO adds a more descriptive title to the RFO and adds the date on which the Final RFO was issued (this change is made throughout).

Paragraph 2. The Final RFO clarifies that to make an Offer a preference customer must have adequate power purchase billing capacity, as provided in Paragraph 4(b) of the Final RFO. For accuracy, the RFO uses the term “Revision” rather than “Amendment” to describe the revision to Exhibit D of the PSA that must be executed to implement the Prepayment Credits (Revision). This change is reflected throughout the RFO.

The Final RFO now uses “contract(s)” and “Prepayment(s)” to reflect that each Offer is separately accepted and that each such acceptance results in an individual contract for a Block. This change is reflected throughout the Final RFO.

Paragraph 2(a). The Offer window is clarified to be a 24 hour period. For simplicity, the terms “Offer Deadline” and “Prepayment Deadline.” are replaced with dates certain. The Final RFO adds, for emphasis, a statement that Offers must be e-mailed by a date/time certain.

Paragraph 2(b)(i). The Final RFO clarifies that BPA may change the communications protocols established in Paragraph 2. It also adds a general catch-all that communications limitations on the RFO will lift when Offers are accepted.

Paragraph 2(b)(ii)-(vii). In response to internal concerns about the flow of information in this solicitation process, paragraphs 2(ii)-(viii) were added in the Final RFO. BPA is balancing concerns about the competitive character of the solicitation and the need for more information flow and assistance in preparing documents. The acceptance of Offers in this particular solicitation is straightforward because it is based solely upon the Purchase Prices that are bid. In BPA’s opinion, there is little chance for assertions of favoritism, bias or unfair bidding advantage that could come into play in this competition. Furthermore, the bid window is 24 hours so inside information on the offered Purchase Prices will be less available for possible inadvertent revelation. BPA will establish internal controls so that bids are closely held until the acceptance period is over. And, BPA will close off communications two weeks prior to the time period for the submission of Offers.

On the other hand, BPA expects that preference customers will need further assistance in developing a detailed understanding and appreciation of the Program

and RFO insofar as their participation or potential participation is concerned. BPA believes that additional outreach is needed to assure that maximum participation is achieved. BPA could delay the RFO issuance date but does not think a delay would have any notable benefits for communications, and thinks that the certainty of having a Final RFO will aid the preference customers in advancing their deliberations on their participation in the RFO, if any.

Paragraph 2(b)(ii). In the Final RFO, BPA encourages the use of e-mailed questions and answers, which will be available to all Interested Parties. This section includes a defined term, “RFO Questions,” which is narrowly defined to mean questions relating to a customer’s potential Offers. This is intended to allow BPA to discuss questions about the Program generally, including with non-Interested Parties.

Paragraph 2(b)(iii). Self explanatory.

Paragraph 2(b)(iv). The Final RFO provides that BPA will help customers fill out the template forms necessary for an Offer. BPA will not fill out the Purchase Price or other substantive features of an Offer.

Paragraph 2(b)(v). BPA reserves the ability to engage in limited “Direct Discussions” with Interested Parties. There is no requirement that these discussions be recorded or that the information in the discussions be shared with Interested Parties. The provision includes limits on the character of the discussions, more particularly that the Substance of the customers’ potential participation will not be discussed. For clarity, basic administrative matters relating to the RFO may be discussed between BPA and Interested Parties.

Paragraph 2(b)(vi). Under the Final RFO, BPA is imposing a quiet period on communications, which will begin two weeks prior to the time that Offers are to be submitted.

Paragraph 2(b)(vii). A preference customer’s main point of contact on the RFO will be its Power Services Account Executive (AE), except as otherwise provided. The Draft RFO had identified personnel in BPA Finance department as the point of contract.

Paragraph 2(b)(viii). Under the Final RFO, Offers are to be submitted in PDF format to a central BPA email address and it is suggested (but not required) that each Offeror send an electronic carbon copy (cc) to its AE. BPA is expecting that AEs may provide a basic review of Offers as submitted to attempt to identify any obvious administrative or documentary errors (missing signatures or initial blocks/ incorrect dating of documents, etc.). Executed paper originals of the Offers (especially the Revisions, which are the document that cements the prepayment contract(s) when executed by both BPA and the related Offeror),

must be mailed by each Offeror to its AE promptly so that the AE will have executed originals of the Revision to counter-sign and return to winning Offerors.

Paragraph 2(c). In contrast to the Draft RFO, under the Final RFO, BPA will not announce in advance of the date that Offers are due to be submitted the maximum number of Blocks that it will purchase. Rather, BPA will announce the maximum aggregate dollar amount of Offers it will accept—see Paragraph 2(c)(ii) of the Final RFO. The original language was erroneous because BPA would have been unable to predict the clearing price and therefore the aggregate number of Blocks it would accept. Also, the term “Credit Commencement Date” is replaced throughout by a date certain as part of BPA’s resolution to specific dates for the RFO and Program.

Paragraph 2(d). The Final RFO clarifies that while BPA may amend the RFO through a date certain, BPA may nonetheless suspend, delay or terminate the RFO without regard to the time limitation for amending the RFO.

Paragraph 3(b). The Final RFO adds a provision to the effect that while Prepayment Credits are fixed there is no intention to interfere with the possibility that Prepayment Credits may roll forward to future periods.

Paragraph 3(c). The Final RFO adds new wording to the effect that a customer may pledge cash remittances by BPA, which is as an exception to the general limitation on assignment.

Paragraph 4(a). Changes in this paragraph clarify the number of originally executed forms that Offerors must submit for an Offer and notes that a single Offer form may be used to submit more than one Offer if the bundled Offers are identical or differentiated only by Purchase Price. The Final RFO adds the word “maximum” for increased consistency with and more accurate description of the clearing price structure used in the Final RFO.

Paragraph 4(b)(i). The Final RFO adds more precise wording to describe the relationship that the net billing agreements have with the number of Blocks a Customer may Offer to purchase. The Final RFO replaces “BPA Fiscal Year” for “Contract Year” to remove a possible ambiguity.

Paragraph 4(b)(ii). The Final RFO adds a provision assuring that a preference customer may obtain, confidentially from BPA, the information on the maximum number of Blocks the customer may Offer to purchase.

Paragraph 4(c). The Draft RFO included information in Appendix C about the potential means by which a customer may indirectly participate in the purchase of Blocks when it may otherwise be precluded. This has been deleted as unnecessary. A brief version of the logic of former Appendix C is included in the

new text to assure preference customers that BPA does not find such arrangements objectionable.

Paragraph 4(d). In the Draft RFO, BPA originally proposed to provide preference customers with the 10-Year Treasury yields. In the Final RFO, BPA has provided a link to the information to assist customers in readily finalizing and making their Offers. BPA will not provide such information to the customers.

Paragraphs 4(e), (f) and (g). In contrast to the Draft RFO, the Final RFO, rearranges the order of these paragraphs to improve logical flow; however, the wording remains substantively similar. The Final RFO adds a clause in Paragraph 4(g) (Paragraph 4(e) of the Draft RFO), emphasizing that the amount of a Prepayment may differ from the Market Clearing Purchase Price if the Market Rate Adjustment has been elected. This emphasis is made throughout the Final RFO.

Paragraph 4(h)(i). The Final RFO uses dates certain in lieu of definitional dates. The Final RFO adds a provision to assure that Purchase Prices will be the determining factor in acceptance and that elections made in an Offer to opt in to off-ramps or the Market Rate Adjustment will not affect selection of accepted Offers.

Paragraph 4(h)(ii). The Final RFO uses a date certain. The Final RFO clarifies that if an Offer is re-submitted because BPA identified an error in the Offer as submitted, the Purchase Price may not be changed.

Paragraph 4(h)(iii). The wording in Paragraph 4(h)(iii) of the Draft RFO has been deleted. BPA originally proposed to establish a loop to check the reasonableness of Initial Spreads for customers opting-in to the basis risk off ramp of Paragraph 6(c). BPA has determined this is unnecessary and would compound timing issues in the process for accepting Offers. The certification of the Financial Advisor is an adequate safeguard for assuring the reasonableness of the Initial Spread.

Paragraph 4(h)(iii). Most of the text of Paragraph 4(h)(iii) of the Final RFO was originally found in Paragraph 4(h)(iv) of the Draft RFO. This is the result of re-numbering the paragraphs in light of the deletion of text, as discussed immediately above. The Final RFO adds a requirement for BPA to announce the aggregate dollar amount of Prepayments it has accepted (the actual amounts received may change depending on the operation of the Market Rate Adjustment, and use of off-ramps and other factors). Paragraph 4(h)(iii) of the Final RFO also adds 'delivery' by BPA of counter-executed acceptances as part of the acceptance process. In view of the possibility that an Offeror may offer to purchase Blocks at differing Purchase Prices and the resulting possibility that not all Offers it submits may be accepted at the Market Clearing Purchase Price, the Final RFO provides that BPA's acceptances shall indicate the number of offered Blocks that BPA has accepted from the Offeror.

Paragraph 4(h)(iii)(B). The material in this Paragraph was formerly in Paragraph 4(h)(iv)(B). The Final RFO clarifies the process for invitations to be made to Offerors whose Offers were lower than the Market Clearing Purchase Price to re-offer at the Market Clearing Purchase Price.

Paragraph 4(j). The Final RFO adds a date certain.

Paragraph 5. The Final RFO adds Treasury web site links for determining the yields on 10-Year Treasuries. It also clarifies that an Accepted Customer is free to use any published yield on 10-Year Treasuries during the Lock-In Date (prior to 3:00 PM Pacific Time) for purposes of calculating the Market Rate Adjustment and/or triggering the Adjustment Cap off-ramp under Paragraph 6(c)(i). By contrast, for determining the Termination Spread basis risk off-ramp under Paragraph 6(c)(ii)(A), the yields on 10-Year Treasuries at the end of the business day prior to the related Lock-In Date will be used.

Paragraph 5(a). The Final RFO uses a date certain for the last day for a Lock-In Date and the default Lock-In Date. Paragraph 5(a) of the Final RFO now references Appendix C, which has been revised to be a form that customers are encouraged to use to apprise BPA of a Lock-In Date. There is no requirement that the customer use this form.

Paragraph 5(b). The Final RFO adds a provision emphasizing that electing the Market Rate Adjustment in Offers is optional.

Paragraph 5(c). In the Draft RFO, BPA proposed using a percentage (based off of the yields on 10-Year Treasuries, expressed in basis points) as the Adjustment Cap. In the Final RFO, BPA has concluded that it will use a dollar amount per Block. Paragraph 5(c) of the Final RFO adds, for emphasis, a statement explaining the possible adverse effects to Awarded Customers if the Adjustment Cap goes into effect.

Paragraph 5(d). The Final RFO adds a date certain. The Final RFO adds a provision requiring BPA to identify the aggregate amount of Prepayments that a customer is to pay after adjusted by the Market Rate Adjustment, if any.

Paragraph 6(a). The Final RFO adds a date certain. The Final RFO adds for emphasis a statement that BPA may terminate a Prepayment transaction with a non-Bond issuing customer as late as March 28, 2013, even if the customer has theretofore transferred Prepayment amounts to BPA.

Paragraph 6(c)(i). For clarification, the Final RFO provides that a contract for Prepayment may be terminated by a customer if the Adjustment Cap is in effect. The Final RFO adds an emphasis that the customer may reset the Lock-In Date in lieu of terminating the related Prepayment contract.

Paragraph 6(c)(ii). For clarification, the Final RFO provides that a contract for Prepayment may be terminated by an Accepted Customer under the off-ramps in Paragraph 6(c)(ii) and (iii). This is added for consistency with the notions that each accepted Offer for a Block and the related Prepayment is an individual contract and each such contract may be terminated by exercising an off-ramp right. This change is made in several places in the Final RFO.

Paragraph 6(c)(ii)(A). In the Draft RFO, the Termination Spread calculation did not include an assumption as to the period between the Lock-In Date and closing for the Bonds (were they to be issued). The Final RFO directs the customers to assume that the closing date for the related hypothetical Bonds (for purposes of determining the Termination Spread) should be March 29, 2013. This section adds a link to the U.S. Treasury website for obtaining the yields on 10-Year Treasuries. For purposes of determining the Termination Spread, an Accepted Customer must use the yields on 10-Year Treasuries at the close of the business on the business day before the Lock-In Date.

Paragraph 6(c)(ii)(B). The Final RFO adds a date certain. The Final RFO clarifies that the off-ramp in this paragraph applies to agreements, analogous to bond purchase agreements, which may be used in connection with bank loans or notes.

Paragraph 6(c)(iii)(B). The Final RFO references an acceptable form to be used by customers in exercising the Adjustment Cap Off-Ramp (see Appendix F, Part II). There is no requirement that a customer use this form.

Paragraph 6(c)(ii)(C). The Final RFO clarifies that the customer will have to develop its own form of notice to BPA that the customer is terminating one more Prepayment contracts under Paragraph 6(c)(ii)(B).

Paragraph 6(e). The Final RFO adds this paragraph to assure customers that BPA's obligation to pay out-of-pocket expenses survives termination of the related Prepayment contract(s).

Paragraph 7. The Final RFO adds more detail and certainty to the process for execution and delivery of the Revision.

Paragraph 8(b). In the Draft RFO, BPA had not resolved whether to allow a customer to direct cash remittances to any account designated by the customer. BPA has decided to make such remittances only to the account each customer has established with BPA to receive refunds. This limitation will avoid complication and potential for confusion and mistakes in BPA's billing and payment procedures and practice.

Appendix A

Introduction. Appendix A to the Final RFO adds some explanatory information to convey the notion that customers may bundle multiple Offers in a single Offer form.

Part II. Appendix A to the Final RFO clarifies that each Offer that is accepted is a separate contract. This point is also made throughout the RFO proper.

Part III. Appendix A to the Final RFO clarifies that an Offeror, in its Offer(s), is to provide a notice of intent to issue or not issue Bonds.

Part IV. Appendix A to the Final RFO uses the term “Offer Date Tested Bonds” for determining the Initial Spread for customers opting-in to the basis risk off-ramp of Paragraph 6(c)(ii)(A). In draft Appendix A to the Draft RFO, BPA would have required the customer to attempt to predict the spread to Treasury on any date the customer selected prior to April 1, 2013. This would not have established an estimate of Offeror’s spread to Treasury proximate in time to the date that the Offer is submitted. Appendix B to the Final RFO modifies the Initial Spread determination by asking Bond-issuing customers to estimate, as part of their Offers, their hypothetical Bonds’ spread to Treasury assuming such Bonds priced on November 29, 2012 and closed the next day.

Appendix A to the Final RFO also requires that the customers, in estimating the Initial Spread, assume that debt service on the hypothetical Bonds is paid from February 1, 2013 to June 30, 2028. This is the same number of months (186) as was proposed in the draft Appendix A to the Final RFO (it is also the same number of months that the Prepayment Credits are scheduled to be provided), but the assumed Bond closing date of February 1, 2013 will allow a more accurate estimate of the cost of the hypothetical Bonds.

Part IV, section 2. Appendix A to the Final RFO, Part IV, section 2, now uses a date certain for estimating the initial spread to Treasury.

Part IV, section 3. Appendix A to the Final RFO, Part IV, section 3, includes a link to the Treasury web site for obtaining the yields on 10-year Treasuries for purposes of estimating the initial spread to Treasury. The section also includes conforming changes.

Part IV, section 4. Appendix A to the Final RFO, Part IV, section 4, includes conforming changes. It also changes “will” to “would” to accurately reflect the hypothetical character of the estimate.

Appendix B

The third sentence of Appendix B to the Final RFO replaces the phrase “may be” with the phrase “are to be,” to connote that the provision of net billing credits is not voluntary. The third sentence of Appendix B to the Draft RFO is deleted in

the final Appendix B as redundant of information provide elsewhere in Appendix B.

Appendix C

Appendix C to the Final RFO replaces information in Appendix C to the Draft RFO regarding indirect participation in the Program. BPA provided such information to assist customers in considering indirect participation in the Program where they may otherwise be precluded. The information has served its intended purpose and BPA has deleted the information in Appendix C to the Draft RFO. In lieu thereof, Appendix C to the Final RFO supplies forms for customers to use in notifying BPA of customer-selected Lock-In Dates. There is no requirement that customers use the Lock-In Date form supplied in Appendix C.

Appendix D

Appendix D to the Final RFO includes a changed date, and deletes brackets that were inadvertently in the draft Appendix D.

Appendix E

Appendix E to the Final RFO includes a number of changes to reflect the terminology of the Final RFO, and where possible, it uses known numbers, dates and amounts in lieu of definitional terms. The effect of the formula is to establish the present value (in dollars) of two streams of 186 monthly Prepayment Credits and determine the difference (in dollars) between the two streams. The first stream is based on the yields on 10-year Treasuries on November 29, 2012. The second is based on the yields on 10-year Treasuries for the Lock-In Date (determined by reference to Treasury yields on the on the Lock-In Date, prior to 3:00 PM Pacific Time). This differential is the Market Rate Adjustment, which may be positive or negative, and which represents the change in the present value of the Prepayment Credit stream as of the Lock-In Date.

Appendix F

Appendix F to the Final RFO includes a Part I, which provides an acceptable form to be used by a customer in terminating one or more Prepayment contracts under the Adjustment Cap Off-Ramp under Paragraph 6(c)(i).

Appendix F to the Final RFO includes a Part II, which provides an acceptable form to be used by a customer in terminating one or more Prepayment contracts under the basis risk off-ramp under Paragraph 6(c)(ii)(A).

Appendix F to the Final RFO includes a Part III, which provides an acceptable form to be used for the certification of the customer's Financial Advisor in terminating a Prepayment contract under the basis risk off-ramp under Paragraph 6(c)(ii)(A).

Appendix G

Appendix G to the final RFO changes a date and changes the enumeration.

Appendix H

Appendix H is the template form of Revision to Exhibit D of the PSA. The template as executed will include several customer-specific details (contract numbers, name of customer, section numbers, etc.).

Title. The title of the Revision was changed to reflect the final title of the RFO.

Section #.1. Appendix H to the final RFO is redrafted to reflect the final title of the RFO and the date certain that Prepayments are to be made. This section also includes a provision to be used for Block Slice customers to allay possible confusion that a “Block” as defined in the RFO and the Revision is different from Block product purchases of power under the Slice Block contracts. This section also clarifies that a Prepayment is the dollar amount for a single Block. This change is in line with the notion that each Offer and acceptance of Block calls for a single Prepayment.

Section #1, second paragraph. The second paragraph of Section #1 of Appendix H to the Final RFO adds “aggregate” for consistency with the notion that each Prepayment is related to a single Block but that Prepayments shall be aggregated into a single payment to BPA. The paragraph also uses a new defined term “Unadjusted Prepayment Amount” to reflect the notion that the amount of a Prepayment may be larger or smaller than the Market Clearing Purchase Price due to operation of the Market Rate Adjustment (where applicable). The second paragraph has also been reordered and wording added to conform directly to the description of Prepayment and Prepayment Credits used in the RFO. The second paragraph also includes the phrase “making and electric power Prepayment under a Prepayment RFO” to address in the Revision the possibility that BPA may proceed in the future with one or more additional electricity prepayments programs modeled on the RFO and employing the Revision.

Section #.2. In contrast to Exhibit H of the Draft RFO, the first paragraph of Section #2 of the Exhibit H of the Final RFO deletes a sentence beginning “Prior to BPA’s execution” The review applies only to the Prepayment amounts as adjusted by the market Rate Adjustment and is fully addressed under paragraph 5(d) of the Final RFO.

Section #.3.3(2). In contrast to Exhibit H of the draft RFO, Section #.3.3(2) of Exhibit H of the final RFO adds more precise section cross-references. It also includes a proviso that states:

provided, however, that, the application of «Customer Name»’s Carry Forward Prepayment Credits to «Customer Name»’s purchases of electric power from BPA under section #.3.3(1)(a) of this exhibit shall extend past November 30, 2032 but only if and to the extent there is in effect between

«Customer Name» and BPA one or more agreements for the sale of electric power by BPA to «Customer Name» after such date.

This proviso is added for certainty that the Prepayments under the RFO do not involve the sale of electric power in excess of 20 years in accordance with the Bonneville Project Act, 16 U.S.C. 832d(a). That provision of the Bonneville Project Act provides that BPA power sales in general “shall be effective for such period or periods, including renewals or extensions, as may be provided therein, not exceeding in the aggregate twenty years from the respective dates of the making of such contracts.”

Section #.3.4. In contrast to Exhibit H of the Draft RFO, Section #.3.4 of Exhibit H of the final RFO includes a provision that states BPA shall remit cash payments by the Due Date for the “month following the month in which the reassignments under sections #.3.2 and #.3.3(2) of this exhibit shall have been deemed to have been made.” The version in Exhibit H of the Draft RFO was incorrect. It suggested that the remittances by BPA would be paid within 20 days of the month in which the related deemed reassignments occurred. On that time frame, BPA would not be in a position to determine if it had in fact received cash receipts from other power sales adequate to support deemed assignments and related cash remittances. The additional calendar month will provide BPA with time to assess whether it can effect deemed reassignments and can make the related remittances. For purposes of comparison, the provision will result in cash remittances (if any) lagging the Prepayment Credits by one month.

In contrast to Exhibit H of the Draft RFO, Section #.3.4 of Exhibit H of the Final RFO includes a parenthetical that states that the term Due Date shall have the meaning as defined in section 16.2 of the body of this Agreement “(or its equivalent date if this Agreement is no longer in effect).” This clause is intended to assure customers that the monthly dates on which BPA will provide cash remittances and Repayment Credits will be the same after the end of the related PSA.

In contrast to Exhibit H of the Draft RFO, Section #.3.4 of Exhibit H of the Final RFO includes a provision that states that BPA “shall transfer the remittances hereunder to «Customer Name»’s specified account to which BPA provides refunds under this Agreement.” This added provision is consistent with Paragraph 8(b) of the Final RFO. BPA has decided to make such remittances only to the account each customer has established with BPA to receive refunds. This limitation will avoid complication and potential for confusion and mistakes in BPA’s billing and payment procedures and practice.

Section #.6. In contrast to Exhibit H of the Draft RFO, Section #.6 of Exhibit H of the Final RFO includes a provision that states that the customer shall not enter an assignment that purports to provide to a third party “a right to any electric power purchased from BPA (including under this section # of this exhibit).” This added

clause conforms to the body of the PSA and is added to assure that a customer does not inadvertently enter into such an assignment.

Signatures. In contrast to Exhibit H of the Draft RFO, Section #.6 of Exhibit H of the Final RFO includes a signature block introduction.

~~JUNE 27, 2012 DRAFT ELECTRICITY PREPAYMENT~~ Contract No. 12PS-«#####»

REQUEST FOR OFFERS FOR

PREPAYMENT OF ELECTRICITY

1. **Request for Offers from Preference Customers.** The Bonneville Power Administration (“BPA”) issues this Request for Offers for Prepayment of Electricity (“RFO”) on this date, ~~[August 6, 2012]~~, 14, 2012, soliciting offers from BPA’s preference customers to prepay for electricity (also referred to herein as “electric power”) purchased from BPA pursuant to their existing power sales agreements (“PSAs”) with BPA.
2. **Preference Customers.** Offers may be submitted by any preference customer that has (i) executed a PSA with BPA to purchase electricity through September 30, 2028. Preference customers making 2028 and (ii) meets the criteria listed in Paragraph 4(b) of this RFO. Such preference customers that make offers hereunder (“Offerors”) may have a load-following PSA or a slice/block PSA, or in the future could be served under a block only PSA. The Prepayment(s) (defined below) will be made pursuant to the contract(s) formed by BPA’s acceptance of the related Offer(s) (defined below) and a ‘springing amendment’ to applicable PSAs ~~in the form of~~ through a revision to Exhibit D of the existing PSAs (~~“Amendment Revision”~~). The form of the ~~Amendment Revision~~ is attached as Appendix H.
 - (a) **Timeline.** Offers conforming to the requirements of this RFO must be submitted to BPA ~~no later than~~ between Noon, Pacific Time on November 29, 2012, and Noon, Pacific Time on November 30, 2012 (“Offer Deadline”) 2012. Offers received earlier or later than such time period will be deemed to be nonconforming Offers. Offers and the related Appendices necessary therefor must be made by electronic communication (“e-mail”) to the e-mail address provided in Paragraph 2(b)(viii). Prepayments under this RFO shall be made no later than March 29, 2013 (“Prepayment Deadline”) 2013. This ~~will provide~~ provides approximately four months after BPA accepts Offers for preference customers whose Offers are accepted (“Awarded Customers”) to arrange for the marketing, pricing and closing of Bonds (defined below) or otherwise to obtain the funds necessary to make ~~the Prepayments~~ their Prepayment(s).
 - (b) **Communications.**
 - (i) ~~(b) Communications~~ **General.** Unless otherwise provided herein or as specified by BPA at a later time, communication by and between BPA and preference customers, Offerors, Prepaying Customers, and/or Awarded Customers (each as defined or described herein) for all notices, filings and other statements hereunder, including ~~;~~ any exercise of any right ~~to~~ under this RFO or the contract formed by acceptance of Offers hereunder by BPA, shall be made ~~electronically~~ first by e-mail to be followed immediately thereafter ~~with~~ by the delivery of physical documentation via express mail. Where signed documents are required,

they shall be provided by portable document format (“PDF”) followed immediately ~~with~~by physical delivery of originals via express mail. For example, the set of documents required for a conforming Offer requires the submission of several executed documents, ~~some of which must be executed~~. Given the time sensitive nature of the submission of Offers and acceptance thereof by BPA, PDF signatures are required in the submission of Offers. The communication limitations described in this Paragraph 2(b) will no longer be in effect at the time one or more Offers have been accepted or this RFO has been terminated, if earlier.

- (ii) *RFO Questions.* Preference customers (or preference customer associations) and their representatives (“Interested Parties”) may have questions about the provisions of this RFO in connection with the preparation of Offers or the evaluation of whether to make Offers (“RFO Questions”). BPA prefers that Interested Parties direct RFO Questions to their designated BPA Power Services Account Executives by email. The applicable email address is provided below. BPA will attempt to answer the questions as promptly as possible; however, in view of the competitive character of this RFO, all such e-mailed questions and responses shall be made available to all Interested Parties.

In making RFO Questions available to Interested Parties (and in responding to RFO Questions), BPA will not identify the names of the interested preference customers (or preference customer associations) or their representatives submitting the RFO Questions until after the acceptance of Offers under, or termination of, this RFO.

- (iii) *Informational Meetings / Conference Calls.* BPA expects to hold one or more webinars, informational meetings or conference calls to help further the understanding of this RFO among Interested Parties. BPA will take reasonable steps to provide telephonic access to such meetings to Interested Parties. BPA will also make recordings of such meetings or conference calls available to Interested Parties.

- (iv) *Assistance in Customizing Documents Necessary for Submitting Offers.* The documents necessary for a conforming Offer, in particular the Offer form and the Revision form, are provided in this RFO as templates and must be customized to reflect individual features of a preference customer’s PSA and comport with BPA’s contract form requirements for PSAs and PSA-related transactions. In connection with possible Offer(s), at a preference customer’s timely request, BPA will provide assistance so that the Offer(s) and related Appendices are prepared to a degree where the preference customer will have to fill in the relevant blanks relating to the Substance (as defined below) and arrange for the execution of the related documents, including the Revision. In providing this contract customization assistance, BPA will not fill in the Substance (as defined below). Moreover, by requesting BPA’s customization assistance a preference customer agrees that it will not discuss with or seek advice from BPA or its representatives on the Substance of the preference customer’s Offer(s) or possible Offer(s). “Substance” means the Purchase Price (Prepayment) a preference customer will Offer, is

considering offering or may consider offering; whether the preference customer will opt in to the Market Rate Adjustment under Paragraph 5; whether the preference customer will issue Bonds as defined herein; whether the preference customer will opt in to the Offeror Off-Ramp under Paragraph 6(c)(ii)(A); whether the preference customer will submit or is considering submitting no Offer, or one or more Offer(s); and the number of Offers the preference customer will submit or is considering submitting.

- (v) *Assistance in Explaining the RFO and the Prepayment Program.* At a preference customer's or other Interested Party's request, BPA will also take reasonable steps to be available on a limited basis to engage directly in explaining the RFO and the Prepayment Program and to answer directly RFO Questions ("Direct Discussions"). Before BPA engages in these Direct Discussions, and in the hope of limiting the need for Direct Discussions, BPA encourages Interested Parties to e-mail RFO Questions to their BPA Power Service Account Executives (see Paragraph 2(b)(ii)) and to participate in the informational meetings referred to in Paragraph 2(b)(iii).

BPA may also engage in limited Direct Discussions to apprise Interested Parties of the existence of the RFO, its general character, related information resources, RFO timing and schedule of events, and similar administrative matters.

At no point will BPA or its representatives be free to advise any preference customer or other Interested Party in any way on the Substance. By requesting Direct Discussions with BPA or its representatives, a preference customer or other Interested Party agrees that it will not discuss with or seek advice from BPA or its representatives on the Substance.

- (vi) *No Obligation to Respond to RFO Questions.* BPA reserves the right not to respond to any or all RFO Questions from Interested Parties. BPA does not intend to respond to RFO Questions, provide assistance in explaining the RFO or the Prepayment Program, or requests for assistance in customizing documents, in each case which are submitted to BPA by Interested Parties after 5:00 PM Pacific Time on November 15, 2012.

- (vii) ~~Communications to BPA~~ *BPA Point of Contact.* Unless otherwise specifically provided herein or as BPA may later provide, communications to BPA in connection with this RFO shall be addressed to:

~~Jon M. Dull, Manager Debt and Investment Management~~

Drafter's Note: Insert AE's Name and Address

Bonneville Power Administration

«Street Address»

«P.O. Box»

«City, State, Zip»

~~Routing: FTC-2~~Attn: «AE Name - Routing»

905 NE 11th Avenue

Portland, OR 97232

«Senior »Account Executive

Phone: «###-###-####»

FAX: «###-###-####»

E-Mail: «E-mail address»

Please Note: Offer(s) and the associated Appendices necessary therefor must be e-mailed to the e-mail address provided in Paragraph 2(b)(viii), immediately below.

(viii) ~~Email: jmdull@bpa.gov or~~ *Submission of Offers.* Offer(s) and the associated Appendices necessary therefor must be e-mailed to BPA no later than Noon Pacific Time on November 30, 2012 at: powerprepays@bpa.gov, with hard copy originals to be delivered (by overnight mail or other reasonable means of delivery for receipt no later than 5:00 PM Pacific Time on December 3, 2012) to the address and to the attention of the Account Executive provided in Paragraph 2(b)(vii) immediately above. In submitting the e-mail of Offers and the associated Appendices necessary therefor, please send an electronic carbon copy (cc) of such materials to the e-mail address of the Account Executive as set forth in Paragraph 2(b)(vii).

(c) *Value of Electricity the Purchase Price of Which May Be Paid through Prepayments.* This RFO invites preference customers to offer to prepay for electricity to be delivered by BPA in discrete increments ("Blocks"). ~~The maximum number of offered Blocks that BPA will accept under this solicitation will be announced by BPA not later than fourteen (14) calendar days prior to the Offer Deadline.~~ Each Block will represent the right to prepay the purchase price for \$50,000 value of electricity from BPA each month during the period commencing on ~~a date specified in the RFO ("Credit Commencement Date")~~ April 1, 2013, and ending September 30, 2028.

(i) ~~*Credit Commencement Date.* The Credit Commencement Date is the first calendar day of the first full calendar month after the Prepayment Deadline and corresponds to~~ *Date Prepayment Credits Commence.* April 1, 2013 is the first day of ~~power~~ electricity sales to which Prepayments will relate. ~~The Commencement Date is April 1, 2013.~~ Prepayment Credits (defined below) accruing for a month will be available to offset payment obligations otherwise due to BPA with respect to that month under Section 16.2 of the PSA.

(ii) *Value of Electricity Offered.* BPA expects that the maximum value of electricity for which Prepayments will be accepted under this RFO will be between \$2.25 million per month (45 Blocks) and \$6.0 million per

month (120 Blocks). The expected aggregate ~~Prepayments~~ amount of Prepayments accepted by BPA (as of the date accepted by BPA, and without taking into account Market Rate Adjustments, as described herein) will not exceed (A) BPA's estimated capital expenditures for federally-owned hydroelectric facilities of the Federal Columbia River Power System in Fiscal Years 2014-2015 as set forth in the Integrated Program Review for BPA's Fiscal Year 2014-2015 Power Rate Case, Integrated Program Review, plus (B) BPA's actual capital expenditures for such hydroelectric facilities to the extent they were funded in Fiscal Year 2013 from cash reserves in the ~~BPA fund~~ Bonneville Power Administration Fund in anticipation of later borrowings from the United States Treasury (BPA frequently refers to this practice as "deferred borrowing"). BPA expects that the aggregate Prepayments (defined below) it would accept could be in the range of \$300 million to \$600 million under this RFO. Not later than November 16, 2012, BPA will announce an estimate of the maximum aggregate dollar amount of Prepayments that BPA will accept under this solicitation.

- (d) **Right to Amend the RFO.** BPA reserves the right to cancel, amend and/or clarify the terms and conditions of this RFO at any time prior to ~~the Offer Deadline, Noon, Pacific Time on November 30, 2012,~~ provided, that, notice of any such possible amendments or clarifications will be communicated by BPA to all preference customers not later than five (5) business days prior to the Offer Deadline, as such date may be amended. BPA may cancel the November 21, 2012, and provided further that the date on which Offers are due may be delayed and the RFO terminated or delayed or suspended without prior notice. BPA may cancel this RFO at any time for any reason. BPA assumes no obligation to reimburse preference customers for any expenses incurred in preparing an Offer. Offers.
- (e) **Formation of Contract.** Upon the acceptance by BPA of ~~any and all~~ Offers, as ~~provided herein~~ described in Paragraph 4(h)(iii), the terms of this RFO (including Appendices) shall constitute a binding contract by and between BPA and each Offeror with respect to each of its Offers that BPA has accepted.
3. **Schedule of Value of Electricity to Be Delivered by BPA Each Month to Which Prepayments May Apply.** As provided in the ~~Amendment, Revision~~ (see Appendix H), each Awarded Customer that makes its required payment ("Prepaying Customer") ~~shall~~ will be entitled to monthly reductions ("Prepayment Credits") for the period from ~~the Credit Commencement Date~~ April 1, 2013 through September 30, 2028, reflecting the value of electricity attributable to its Prepayment for each such month. Prepayment Credits ~~are~~ will be associated with and reflect the right to receive delivery of a specified value of electricity from BPA each month. As provided in the ~~Amendment, see Appendix H~~ Revision, the Prepayment Credits ~~are~~ will be the dollar amounts that the Prepaying Customer would have paid in the related month but for the amount it prepaid, and ~~shall~~ will be shown on the Prepaying Customer's monthly power bill as reductions to the amount that otherwise would be payable with respect to the Prepaying Customer's purchases of electricity from BPA. ~~In return~~ For its part, the Prepaying Customer shall make a lump sum cash payment to BPA no later than March 29, 2013 with respect to each Offer ~~of a Block~~ that BPA has accepted ("Prepayment") ~~to BPA no later than the Prepayment Deadline.~~ While each Prepaying Customer will aggregate all of its Prepayments into a single payment to BPA, each Offer

(and the separate contract formed by the acceptance thereof by BPA) is associated with ~~an individual~~ a separate Prepayment.

Drafter's Note: Insert appropriate Exhibit D section number below in 3(a), (b) and (c)

- (a) ***Prepayments for Electricity.*** As provided in the ~~Amendment~~Revision, except in connection with “deemed assignments” of Prepayment Credits by BPA to other purchasers of electricity and possibly in connection with any accumulation of unused Prepayment Credits, each as set forth in Section #.3 of the ~~Amendment,~~ see Appendix H~~Revision~~, Prepayment Credits apply only to payments the Prepaying Customer otherwise would be required to make to BPA for each month as a result of the Prepaying Customer’s purchases of electricity from BPA during that month pursuant to the Prepaying Customer’s PSA. For avoidance of doubt, a Prepayment does not entitle the Prepaying Customer to payment credits for transmission or related services or any other products, apart from electricity, that it purchases from BPA, or for any other obligation, apart from the purchase of electricity, that the Prepaying Customer owes to BPA.
- (b) ***Fixed Value of Prepaid Electricity.*** ~~As provided in the Amendment~~ a Prepaying Customer’s Prepayment is *not* for a fixed quantity of electricity. Rather, a Prepayment is and will be treated as meeting the obligation of the Prepaying Customer (or any deemed assignee of Prepayment Credits under Section #.3 of the ~~Amendment,~~ see Appendix H~~Revision~~) to make payment to BPA for a fixed monthly *value* of electricity. ~~As provided in the Amendment,~~ The quantity of electricity to which ~~the~~ a Prepayment applies shall vary, depending on BPA’s rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA’s rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits under Section #.3 of the ~~Amendment,~~ see Appendix H~~Revision~~). The schedule of the value of electricity to be prepaid each month will be fixed, as provided in the ~~Amendment~~Revision, and will not be subject to change after the associated Prepayment is made and the ~~Amendment~~Revision takes effect. ~~(except that Prepayment Credits shall be carried forward as provided in Section #.3.3 of the Revision).~~
- (c) ***Prepaid Electricity and Prepayment Credits May Not Be Assigned.*** Prepaying Customers ~~shall~~may not ~~be permitted to~~ assign their rights to the prepaid electricity or the related Prepayment Credits to any other person; however, it is possible that certain deemed assignments of Prepayment Credits could be made by BPA under circumstances described in Section #.3 of the ~~Amendment,~~ see Appendix H~~Revision~~. Prepaying Customers may pledge the cash remittances under Section #.3 of the Revision as provided in Paragraph 8(b) hereof and Section #.6 of the Revision.
4. **Auction Process** ~~/Adjustments/Offers~~.
- (a) ***Blocks.*** Each offer to purchase a Block shall be made by the Offeror by delivering to BPA ~~a form attached~~ two (unless more are required by the Offeror) fully completed and executed Offer forms attached hereto as Appendix A and all other necessary additional Appendices specified in this RFO (each an “Offer,” ~~although an Offeror may submit a number of individual Offers through a single Form~~); provided, that regardless of the number of Offer forms submitted, the

Offeror shall provide only *two* (unless more are required by the Offeror) executed Revision forms, attached hereto as ~~described in Appendix A~~ Appendix H, and *two* (unless more are required by the Offeror) executed certifications, attached hereto as Appendix D. Each Offer shall specify a “Purchase Price,” meaning the maximum Prepayment amount the Offeror is willing to pay for a Block (prior to any Market Rate Adjustment, as provided in Paragraph 5 of this RFO). Offerors may submit multiple Offers, each for the purchase of a single Block, although the aggregate number of Offers an Offeror may submit is subject to the limits described in Paragraph 4(b). An Offeror may (but need not) offer a different Purchase Price for each Block offered. *Please Note: An Offeror may submit a number of identical individual Offers through a single set of executed Offer forms so long as the Offers are identical or differentiated only by Purchase Price, as provided in Appendix A.*

(b) ***Offers Limited.***

(i) *Prepayment Limit.* Each preference customer is limited in the number of Blocks it may offer to purchase. The limit is the lesser of (A) the estimated ~~credits~~ Prepayment Credits that ~~could be provided to~~ may be contracted for by BPA and the preference customer in ~~connection with Net Billing Agreements in Contract Years 2014—2018 assuming no BPA direct payments to Energy Northwest, and~~ BPA Fiscal Years 2014 – 2018 in light of the preference customer’s Net Billing Agreement(s), if any, or (B) 50% of the smallest amount expected to be paid to BPA by the ~~Offeror~~ preference customer under its PSA for ~~firm power~~ electricity purchased during any ~~Contract~~ BPA Fiscal Year from ~~Contract Years~~ BPA Fiscal Year 2014 through ~~Contract~~ BPA Fiscal Year 2018. (See Appendix B.)

(ii) *Confidential Communication of Prepayment Limit to Each Preference Customer.* BPA will determine and provide separately to each requesting preference customer, on a confidential basis, the maximum number of Blocks for which the preference customer may submit Offers consistent with the foregoing limitation in Paragraph 4(b)(i). To receive the foregoing information regarding the maximum number of Blocks a preference customer may offer, it must send BPA an electronic communication requesting the information no later than 5:00 PM Pacific Time on October 15, 2012. Communications under this Paragraph 4(b)(ii) do not constitute Direct Discussions or RFO Questions as defined in Paragraph 2(b).

(c) ***No Partial Blocks.*** Each Offer shall be for the purchase of a single whole Block; however, ~~under circumstances outlined in Appendix C, a preference customer may participate in the purchase of a partial block if it enters into a financial arrangement with another Prepaying Customer that acts as a consolidator.~~ this RFO does not preclude a Prepaying Customer from entering into a strictly financial loan type agreement (one not involving the assignment of either electricity from BPA or Prepayment Credits) with another preference customer where it provides a portion of the Prepaying Customer’s Prepayment and receives consideration in return.

- (d) ~~Certification of True Interest Cost. Each Offeror that wishes to have available~~To establish the Offeror Off-Ramp described in Paragraph 6(c)(ii), ~~an Offeror that expects to issue Bonds to fund the related Prepayment(s)~~ must include in its related Offer(s) (i) a certification of the Offeror's estimated true interest cost on indebtedness that might be issued to finance the Offeror's Prepayment(s), assuming the indebtedness were issued on ~~the day of the Offer Deadline, November 30, 2012,~~ computed as set forth in Appendix A ("TIC"), and (ii) a certification of the differential ("Initial Spread") between (A) the ~~published yield on such date on 10-year U.S. Treasury obligations, as communicated by BPA to potential Offerors by 7:00 AM Pacific Time on the day for November 29, 2012, as published by the United States Department of the Offer Deadline Treasury at~~ <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/te xtview.aspx?data=yield>, and (B) the TIC, ~~in each case. Reasonableness of the TIC estimate must be~~ confirmed by a certification of the Offeror's independent financial advisor ("Advisor"), on the form set forth in Appendix A. The Offeror Off-Ramp described in Paragraph 6(c)(ii) shall be available to an Offeror only if its related Offer(s) ~~has~~ met the conditions establishing the Off-Ramp right.
- (e) ~~Market Clearing Price. In general, BPA will accept Offers for Blocks based on the Offer(s) that provide(s) the highest Purchase Price (i.e., the largest Prepayment) that 'clears the market' ("Market Clearing Purchase Price"). The Market Clearing Purchase Price is the highest Purchase Price which, together with all other offered Blocks at that or a greater Purchase Price, provides BPA with an aggregate amount of Prepayments that BPA determines is appropriate. All Awarded Customers shall pay the Market Clearing Purchase Price for each offered Block that BPA accepts. Thus, with respect to an offered Block, it is possible that an Awarded Customer may become obligated to provide a lower Prepayment (i.e., Purchase Price) than the amount that it submitted in its accepted Offer(s) if the Market Clearing Purchase Price is lower than Purchase Price submitted in the accepted Offer(s).~~**Certification of Authority to Issue Bonds.** Each Offer must include a certification substantially in the form attached as part of Appendix A to the effect that any bonds, notes or other indebtedness ("Bonds") proposed to be issued to fund a Prepayment are authorized under applicable federal, state and local law, as well as any applicable resolutions, charters, bylaws or other rules or regulations that apply to the Awarded Customer or to any other entity that is proposed to issue Bonds to fund any Prepayment or portion thereof.
- (f) ~~Certification of Authority to Issue Bonds. Each Offer must include a certification substantially in the form attached as part of Appendix A to the effect that any bonds, notes or other indebtedness ("Bonds") proposed to be issued to fund a Prepayment are authorized under applicable federal, state and local law, as well as any applicable resolutions, charters, bylaws or other rules or regulations that apply to the Awarded Customer or to any other entity that is proposed to issue Bonds to fund the Prepayment.~~**Certification of Independent Offer(s).** Any collusion among Offerors in establishing the number of Blocks offered or the Purchase Price offered for any Block is prohibited. Each Offer must include a certification of independent offer by the Offeror, substantially in the form attached as Appendix D.

- (g) *Certification of Independent Offer(s)*. Any collusion among Offerors in establishing the number of Blocks offered or the Purchase Price offered for any Block is prohibited. Each Offer must include a certification of independent offer by the Offeror, substantially in the form attached as Appendix D. Market Clearing Purchase Price. In general, BPA will accept Offers for Blocks based on the Offer(s) that provide(s) the highest Purchase Price(s) (*i.e.*, the largest Prepayment) that 'clears the market' ("Market Clearing Purchase Price"). The Market Clearing Purchase Price is the highest Purchase Price which, together with all other offered Blocks at that or a greater Purchase Price, provides BPA with an aggregate amount of Prepayments and cost that BPA determines is appropriate. All Awarded Customers shall pay the Market Clearing Purchase Price for each offered Block that BPA accepts (but subject to adjustment for Offers by Awarded Customers who elect the Market Rate Adjustment described in Paragraph 5). Thus, with respect to an offered Block, even without regard to the Market Rate Adjustment described in Paragraph 5, it is possible that an Awarded Customer may become obligated to provide a lower Prepayment (*i.e.*, Purchase Price) than the amount that it submitted in its accepted Offer(s) if the Market Clearing Purchase Price is lower than Purchase Price submitted in the Awarded Customer's accepted Offer(s).
- (h) *Evaluation and Acceptance of Offers*.
- (i) *BPA Evaluation of Offers*. As soon as reasonably practicable following ~~the Offer Deadline~~, Noon Pacific Time on November 30, 2012, but in no event ~~more than two (2) business days thereafter~~, later than 9:00 AM Pacific Time on December 4, 2012, BPA will complete its initial evaluation of the Offers received to determine (A) which Offers conform to the RFO, and (B) the aggregate amount of conforming Offers (if any) that BPA will accept, up to the maximum aggregate Prepayment amount theretofore specified by BPA. This initial evaluation will be made without regard to how an Offeror proposes to fund its Prepayment-, and without regard to whether an Offer has opted into the Market Rate Adjustment under Paragraph 5 or Offeror Off-Ramps under Paragraph 6(c). Communications in this Paragraph 4(h) will be held in confidence and do not constitute RFO Questions or Direct Discussions as defined in Paragraph 2(b).
- (ii) *Nonconforming Offers*. BPA, in its discretion, may advise any Offeror that has submitted a nonconforming Offer of the manner in which the Offer fails to conform to ~~the~~this RFO, in which case the Offeror may submit a revised Offer. Any such revised Offer must be submitted to BPA no later than 5:00 PM Pacific Time on ~~the day of the Offer Deadline~~November 30, 2012. Any revised Offer shall make no change to the offered Purchase Price.
- (iii) *Initial Spread*. ~~By 5:00 PM Pacific Time on the second business day after the day of the Offer Deadline, BPA will notify on a confidential basis each Offeror whose Offer(s), included the Offeror Off-Ramp under Paragraph 6(c)(ii)(A) and whose Offer(s), BPA believes is/are potentially acceptable whether (A) BPA concurs with the certified Initial Spread included in the related Offer(s), and (B) if BPA does not concur with the certified Initial Spread, the~~

~~Initial Spread that BPA determines is appropriate. By Noon Pacific Time on the third business day after the day of the Offer Deadline, if the Offeror and BPA have not agreed upon an Initial Spread that will apply to the Offeror, then either (Y) the Offeror may advise BPA that the Offeror opts to forego the Off Ramp described in Paragraph 6(c)(ii)(A), or (Z) the Offer will be considered to be a noneconforming Offer.~~ **Drafter's Note: Insert appropriate Exhibit D section number below.**

~~(iii)~~ ~~(iv)~~ **BPA Acceptance of Offers.** By 5:00 PM Pacific Time on ~~the third business day after the original deadline for submitting Offers, December 4, 2012,~~ BPA will advise all Offerors of (A) the aggregate number of Blocks and the aggregate amount of Prepayments that BPA is accepting (without regard to Market Rate Adjustments described in Paragraph 5), (B) the Adjustment Cap (defined in Paragraph 5(c)), and (C) the Market Clearing Purchase Price applicable to all offered Blocks that BPA is accepting. BPA will accept Offers by executing and delivering to Awarded Customers the applicable ~~Amendments~~ Revision, as provided in Paragraph ~~7.~~ 7, which shall reflect the number of offered Blocks that BPA has accepted to sell to the related Awarded Customer in the Schedule of Prepayment Credits in Section #.3.1.

(A) **Over-Subscription.** If conforming Offers are made for more than one Block at the Market Clearing Purchase Price, BPA will accept all such Offers, subject to the limit described in Paragraph 2(c)(ii) or such other lower aggregate amount of Prepayments that BPA determines to accept. If BPA determines to accept fewer than all conforming Offers originally made at the Market Clearing Purchase Price, BPA may accept conforming Offers originally made at the Market Clearing Purchase Price by lottery.

(B) **Under-Subscription/Invitations to Re-Offer.** If BPA determines that the potentially acceptable Offers will not provide Prepayments in an aggregate amount sufficient to meet BPA's purposes, BPA reserves the right and ability to, and may, not later than 5:00 PM Pacific Time on December 4, 2012, invite Offerors whose originally offered Purchase Prices were lower than the Market Clearing Purchase Price to re-offer at the Market Clearing Purchase Price. BPA will extend the invitations to ~~re-offer~~ all Offerors whose original Offers were for Purchase Prices lower than the Market Clearing Purchase Price. No later than Noon Pacific Time on December 5, 2012, any invited Offerors may notify BPA that they accept BPA's invitation to revise their Purchase Price for any Offer to the Market Clearing Price previously announced by BPA. If that invitation results in aggregate Offers for more Prepayments at the Market Clearing Price than BPA determines to accept, BPA will accept revised Offers in order ranked on the basis of the original conforming Offers that were closest to the Market Clearing Purchase Price.

(i) ***Price Paid for Accepted Offers.*** The Market Clearing Purchase Price will apply with respect to all accepted Offers.

- (j) **Rejection of All Offers / Reservation Price.** BPA will establish a reservation price. If BPA accepts any Offer(s), it will communicate the reservation price it used to all Offerors by ~~the end of the third business day after the day of the Offer~~ Deadline: 5:00 PM Pacific Time on December 4, 2012. BPA reserves the right to reject all Offers without regard to its use or establishment of a reservation price.
5. **Market Rate Adjustment.** If and only if an Awarded Customer has so designated in its Offer(s), the Purchase Price to be paid for the related Offer(s) accepted by BPA will be subject to later adjustment (“Market Rate Adjustment”) to reflect the change ~~in yield of 10-year U.S. Treasury obligations~~ between (Y) the ~~day of the Offer Deadline (using the published~~ yield on 10-year U.S. Treasury obligations ~~at the close of the business day immediately preceding the day of the Offer Deadline, as will be communicated by BPA to potential Offerors no later than 7:00 AM Pacific Time on the day for November 29, 2012, as published by the United States Department of the Offer Deadline) and (Z) 5~~ Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, and (Z) the yield on 10-year U.S. Treasury obligations, as published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, (Y) the yield on 10-year U.S. Treasury obligations for any time prior to 3:00 PM Pacific Time on the date that the Awarded Customer elects to lock in a Market Rate Adjustment for such Offer, as provided in a notice to BPA (“Lock-In Date”) ~~Thus, if, as published by the United States Department of the Treasury at~~ <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>. The formula for calculating the Market Rate Adjustment is set forth in Appendix E. If an accepted Offer does not specify that the Awarded Customer is electing into the Market Rate Adjustment, the Market Clearing Purchase Price shall be the amount specified in the accepted Offer ~~without adjustment.~~ **Please Note:** The Market Rate Adjustment is subject to a cap, as provided in Paragraph 5(c).
- (a) **Lock-In Date.** The Lock-In Date shall be a business day and shall not be earlier than three (3) business days following the date on which BPA receives written notice of the ~~notice~~ Lock-In Date; provided, that, in no instance shall the Lock-In Date be later than ~~the tenth business day prior to the Prepayment Deadline, March 19, 2013,~~ and if the Awarded Customer has not established by notice to BPA a Lock-In Date that is ~~a date before the tenth business day prior to the Prepayment Deadline, before March 19, 2013,~~ the Lock-In Date shall be ~~the tenth business day prior to the Prepayment Deadline, March 19, 2013.~~ An Awarded Customer may cancel the Lock-In Date designated in its notice at any time prior to 5:00 PM Pacific Time on the designated Lock-In Date, effective at the time BPA receives notice thereof, at which point the Awarded Customer shall be free to designate a new Lock-In Date by notice to BPA, subject to the limitation in the prior sentence that in no instance shall the Lock-In Date be later than the ~~tenth business day prior to the Prepayment Deadline~~ earlier of (i) three (3) business days following the date of BPA’s receipt of the notice, or (ii) March 19, 2013. An acceptable form for establishing a Lock-In Date is provided in Appendix C.
- (b) **Separate Lock-In Date for Each Offer.** The Lock-In Date applies on an Offer basis, not on an Awarded Customer basis. For example, an Awarded Customer may elect to have a Lock-In Date in connection with a Prepayment for a Block which is expected to be funded with the issuance of Bonds and another Lock-In

Date in connection with a Prepayment for a Block which is expected to be funded from cash-on-hand. Please Note: There is no requirement that an Offer must establish a Market Rate Adjustment or an associated Lock-In Date.

- (c) **Adjustment Cap.** The Market Rate Adjustment shall not exceed a ~~percentage, expressed in basis points~~ dollar amount per Block, announced by BPA when it accepts the Offers (“Adjustment Cap”). The Market Rate Adjustment will increase or decrease the applicable Purchase Price (*i.e.*, Prepayment amount) as provided in Appendix E, subject to the Adjustment Cap. Please Note: If the Adjustment Cap is in effect on a Lock-In Date for an Awarded Customer, it should carefully weigh using the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) because if it does not take the off-ramp, the Awarded Customer may be exposed to being obligated to make a larger Prepayment (relative to the value of its Blocks in that interest rate environment) than it may or would otherwise be willing to bear.
- (d) **Verification of Market Rate Adjustment.** On or before 5:00 PM Pacific Time on the second business day after a Lock-In Date applicable to an accepted Offer, BPA will notify the Awarded Customer of the amount of the Market Rate Adjustment for the related Offer(s) and the final aggregate amount of Prepayment to be paid to BPA under this RFO by the Awarded Customer, and the Awarded Customer shall have the opportunity to verify the accuracy thereof prior to ~~the Prepayment Deadline, March 29, 2013~~. In the event of a dispute over the Market Rate Adjustment which is not resolved by ~~the Prepayment Deadline, March 29, 2013~~, the Awarded Customer shall make its Prepayment(s) on or before ~~the Prepayment Deadline, March 29, 2013~~ in the amount determined by reference to the BPA-determined Market Rate Adjustment, subject to final resolution under the dispute resolution provisions of the PSA applicable to disputed bills.
6. **Funding Prepayments / Off-Ramps.**
- (a) **Timing.** The Prepayment(s) must be made on or before ~~the Prepayment Deadline, Noon, Pacific Time on March 29, 2013~~. Awarded Customers may choose to pay BPA before ~~the Prepayment Deadline, March 29, 2013~~, but the Prepayment amount(s) will not be adjusted for early payment. Please Note: Where an Offer states that the Awarded Customer is not expected to issue Bonds to fund the related Prepayment, BPA may exercise its Off-Ramp under Paragraph 6 of this RFO through March 28, 2013, regardless of whether the Awarded Customer has made its related Prepayment.
- (b) **Source of Funding.** Awarded Customers ~~will~~ have flexibility to fund their Prepayments from whatever source(s) they choose (for example, cash-on-hand; proceeds from the issuance of Bonds), so long as the funding is consistent with applicable law, the terms of the PSAs, and the principles described in this RFO.
- (c) **Offeror Off-Ramps.**
- (i) **Adjustment Cap Off-Ramp.** An Awarded Customer that ~~elects in~~ submits an Offer stating that the Awarded Customer elects to have the Market Rate Adjustment apply ~~may elect not to make its Prepayment with~~

~~respect to that Offer~~ to the Offer may elect to terminate the contract formed by BPA's acceptance of the Awarded Customer's Offer (including, without limitation, terminating the Awarded Customer's obligation to make the related Prepayment and the Awarded Customer's related entitlement to Prepayment Credits) if, on the applicable Lock-In Date, the Adjustment Cap is in effect. (*Please Note: In lieu of terminating the contract formed by BPA's acceptance of the Awarded Customer's Offer, the Awarded Customer may change the Lock-In Date as provided in Paragraph 5(a).*)

- (ii) *Bond-Related Off-Ramps.* An Awarded Customer that submits an Offer ~~advising BPA~~ stating that the Awarded Customer expects to issue Bonds to fund the Prepayment may elect ~~not to make its Prepayment with respect to that~~ to terminate the contract formed by BPA's acceptance of the Awarded Customer's Offer if:
- (A) the estimated differential between the ~~TIC~~ true interest cost on Bonds of the character described in the Awarded Customer's Certification of Expected True Interest Cost and Initial Spread ~~and the TIC, but sold on the Lock-In Date and issued on March 29, 2013, and the yield~~ on 10-year U.S. Treasury ~~Obligations~~ obligations published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield> for the business day before the Lock-In Date ("Termination Spread") ~~as of the Lock-In Date~~, has increased above the Initial Spread by more than 25 basis points (0.25%), determined as provided in Appendix F, Part II; or
- (B) on the applicable Lock-In Date for the Offer, or in the twenty-one (21) calendar days thereafter (but in no event later than ~~the business day before the Prepayment Deadline~~ March 28, 2013), any of the conditions described in Appendix G exists, and such condition has resulted or will result in the failure (i) to achieve an executed bond purchase agreement for the Bonds or a similar agreement, including a credit agreement or similar contract where a note or similar debt instrument is proposed to be issued to a bank or financial institution ("Bond Purchase Agreement ~~for the Bonds~~"), or (ii) to close the related Bond sale.
- (iii) *Termination Notices.*
- (A) To exercise the right ~~to terminate~~ under Paragraph 6(c)(i) to terminate a contract formed in respect of an Offer, the Awarded Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination and a good faith estimate that the Adjustment Cap is in effect ~~in connection with that Offer. An acceptable form for exercising the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) is provided in Appendix F, Part I.~~
- (B) To exercise the right ~~to terminate~~ under Paragraph 6(c)(ii)(A) to terminate a contract formed in respect of an Offer, the Awarded

Customer must provide to BPA on the Lock-In Date an irrevocable notice of termination in connection with that Offer and a good faith estimate (confirmed by a certification from the Advisor which certified the Initial Spread); that the Termination Spread ~~as of the Lock-In Date is expected to be~~ greater than the Initial Spread by more than 25 basis points (0.25%). Acceptable forms for exercising the termination right under Paragraph 6(c)(ii)(A) and the associated certification of the Advisor, are provided in Appendix F, Part II.

- (C) To exercise the right to terminate a contract formed in respect of an Offer under Paragraph 6(c)(~~iii~~)(B), the Awarded Customer must provide BPA with an irrevocable notice of termination in connection with that Offer (not later than 5:00 PM Pacific Time on March 29, 2013), together with a certification by it that one or more of the conditions described in Appendix G exists on the date of termination and has or will result in the failure (i) to achieve an executed Bond Purchase Agreement ~~for the Bonds~~, or (ii) to close the related Bond sale. The form of notice of termination under this Paragraph 6(c)(iii)(C) may be any form that reasonably conveys the information required herein.
- (iv) *Effect of Termination Notice.* The right and obligation of the Awarded Customer to make its Prepayment with respect to an accepted Offer shall terminate upon delivery of a notification to BPA under Paragraph 6(c)(iii) with regard to Paragraphs 6(c)(i), 6(c)(ii)(A) or 6(c)(ii)(B); provided, however, that in lieu of termination under this Paragraph 6(c), the Awarded Customer may specify a new Lock-In Date by notifying BPA thereof in accordance with Paragraph 5(a).
- (v) *Reimbursement of Costs.* If an Awarded Customer exercises a termination election under this Paragraph 6(c) with respect to any accepted Offer, BPA will reimburse the Awarded Customer for up to ~~\$100,000~~ 100,000, in aggregate, of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or the proposed use of other available cash to fund the Prepayment(s), which costs would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s), in each case to the extent those costs were incurred ~~during the period commencing on the date on which BPA accepted the Offer(s)~~ from December 5, 2012, through and including the date of the Awarded Customer's termination. If an Awarded Customer terminates only some of its Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers which gave rise to formation of contracts that are not terminated.
- (d) ***BPA Off-Ramps.***
- (i) *If Bond Financing Is Expected.* Where an Offer ~~indicates~~ states that the Awarded Customer or another entity is expected to issue Bonds to fund the related Prepayment(s), BPA may for any reason and without cause,

at any time before an applicable Lock-In Date for the Offer, terminate ~~its right and obligation~~ the contract formed in respect of that Offer, including without limitation BPA's right to receive the Prepayment and BPA's obligation provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on the business day before the Lock-In Date.

- (ii) *If Bond Financing Is Not Expected.* Where an Offer ~~indicates~~ states that the Awarded Customer or another entity is not expected to issue Bonds to fund the related Prepayment, BPA may, for any reason and without cause at any time before ~~the Prepayment Deadline, terminate its right and obligation~~ March 29, 2013, terminate the contract formed in respect of that Offer, including without limitation BPA's right to receive the Prepayment and BPA's obligation to provide the related Prepayment Credits. Such termination shall be effective upon notice to the Awarded Customer; provided, that, for such notice to be effective it shall be delivered to the Awarded Customer no later than 2:00 PM Pacific Time on ~~the business day before the Prepayment Deadline.~~ March 28, 2013. In such an instance, BPA shall immediately return any funds theretofore ~~were~~ transferred to BPA by the Awarded Customer in respect of its Prepayment obligation prior to the termination ~~and/or the Prepayment Deadline.~~

If BPA exercises the termination right described in ~~this~~ Paragraph 6(d)(i) or Paragraph 6(d)(ii), BPA will reimburse the Awarded Customer for up to ~~\$100,000~~ 100,000, in aggregate, of reasonable out-of-pocket costs incurred by the Awarded Customer in connection with any proposed issuance of Bonds to fund the Prepayment(s) or the proposed use of other available cash to fund the Prepayment(s), in each case to the extent those costs were incurred ~~during the period commencing on the date on which BPA accepted the Offer(s) from~~ December 5, 2012 through and including the date of BPA's termination, but only to the extent those costs would not have been incurred by the Awarded Customer but for BPA's acceptance of the terminated Offer(s). If BPA terminates only some of an Awarded Customer's Prepayment obligations, then BPA shall not be obligated to reimburse any costs that the Awarded Customer would have incurred in any event with respect to the accepted Offers which gave rise to formation of contracts that are not terminated.

- (e) *Survival of Reimbursement Obligations.* For clarity, BPA's reimbursement obligations under Paragraphs 6(c) and 6(d) shall survive the termination of the contract(s) formed in respect of the related Offer(s).

7. ~~Amendments~~ Revisions to Existing PSAs. The ~~Amendment~~ Revision (two originals, unless more are required by the Offeror) must be executed by ~~the Offeror~~ each Offeror and delivered to BPA as part of ~~their~~ its Offer(s), ~~and if~~ If the Offer(s) are accepted by BPA, ~~will be executed by BPA~~ the Revision also will be executed by BPA and delivered to the Offeror. BPA will execute and deliver by e-mail to each Awarded Customer a PDF of the executed Revision by 5:00 PM, Pacific Time, December 5, 2012, to be followed immediately by

delivery (via overnight mail) of a BPA-executed original of the Revision. The execution by BPA of ~~an Amendment~~ a Revision and delivery of a PDF of that fully executed Revision to the Offeror will constitute BPA's acceptance of the related Offer(s), consistent with Paragraph 4 above. Once executed and delivered by BPA, the ~~Amendment~~ Revision shall take effect on ~~the Prepayment Deadline, March 29, 2013,~~ but only if BPA has received the Prepayment on or before ~~the Prepayment Deadline, March 29, 2013,~~ and no termination under Paragraph 6(c) or 6(d) has occurred. All other provisions of the existing PSAs with Prepaying Customers shall remain unchanged.

8. **Bonds Issued to Fund Prepayment(s) Will Not Be Guaranteed by BPA.** BPA will not provide any guarantee of the payment of principal of or interest on any Bonds issued by or for the benefit of any Awarded Customer to fund its Prepayment(s) or to refund or refinance such Bonds.
- (a) **Disclosure.** If Bonds are to be issued to fund a Prepayment, if disclosure materials are prepared with respect to those Bonds, and if the disclosure materials include a description of the ~~Amendment~~ Revision, then the disclosure materials also shall include the following statement: *"The [Name or Title of Bonds] are not a debt or other obligation of Bonneville Power Administration, and the [Name or Title of Bonds] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund."*
- Drafter's Note: Insert appropriate Exhibit D section number below.**
- (b) **Pledging Remittances.** The Awarded Customer may pledge or otherwise grant a security interest in (i) BPA's remittances of cash reflecting BPA's deemed assignments of electricity for an Awarded Customer in Section #.3 of the ~~Amendment, see Appendix H~~ Revision, and (ii) money damages arising from any breach by BPA of its obligations under the ~~Amendment~~ Revision. However, any such pledge shall not provide or purport to provide the pledgee with any right to bring any legal action against BPA to enforce rights of the Awarded Customer against BPA. BPA will not agree to make cash remittances to any account other than the customary account designated by Awarded Customer and used by BPA for cash refunds to the Awarded Customer under its PSA.

APPENDIX A

OFFER

PLEASE NOTE: To constitute a conforming Offer, the Offeror must submit more than a single Offer form if the Offeror is offering to purchase more than one Block ~~but only and the terms (apart from the Purchase Price per Block) are not identical across such Offers.~~ Thus, separate Offer forms must be submitted if (i) the Offeror expects to fund its Prepayment for one or more Blocks through the issuance of Bonds and to fund its Prepayment for one or more Blocks without the issuance of Bonds, (ii) the Offeror elects to have the Market Rate Adjustment under Paragraph 5 of the RFO apply to some but not all of its Offers, or (iii) the Offeror establishes the Bond-Related Off-Ramps under Paragraph 6 of the RFO for some but not all of its Offers. Conversely, an Offeror may bundle a number of Offers using a single Offer form, but all Offers at different Purchase Prices so bundled must otherwise have identical terms in order to be considered conforming Offers.

Part I. Definitions

Unless otherwise provided, capitalized terms in this Offer shall have the meanings assigned to such terms in the Request for Offers of Bonneville Power Administration (~~“BPA”~~), dated ~~August 6,~~ August 14, 2012, (the “RFO”).

Part II. ~~Offers~~ Offer(s)

All Offers presented herein are subject to all terms and conditions specified in the RFO, and each Offer so accepted by Bonneville Power Administration (“BPA”), as provided in the RFO, shall result in a binding contract between the Offeror and BPA with respect to such Offer, as provided in the RFO.

Pursuant to the RFO, [_____] (the “Offeror”) hereby offers to purchase Blocks from BPA as follows:

<u>Number of Blocks</u>	<u>Purchase Price per Block[*]</u>
_____	\$ _____
_____	\$ _____

^{*} Adjusted as set forth in Part V.

_____ \$ _____
_____ \$ _____
_____ \$ _____
_____ \$ _____
_____ \$ _____

Part III. Certification of Authority and Intent to Issue Bonds

For all Offer(s) submitted herein, the Offeror must elect one of the following Alternatives:

~~{~~Alternative #1: The Offeror does not propose to issue Bonds to fund any portion of its Prepayment pursuant to the Offer(s) made herein.~~}~~

{Alternative #2: The Offeror proposes to issue Bonds to fund some or all of its Prepayment pursuant to the Offer(s) made herein. The Offeror has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Offeror, to issue Bonds to fund its offered Prepayment(s) pursuant to the Offer(s) made herein.~~}~~

~~{~~Alternative #3: The Offeror expects [_____] (the “Bond Issuer”) to issue Bonds for the benefit of the Offeror to fund a portion or all of the Offeror’s Prepayment(s) pursuant to the Offer(s) made herein. The Bond Issuer has authority under applicable federal, state and local law, as well as under any applicable resolutions, charters, bylaws or other rules or regulations which apply to the Bond Issuer, to issue Bonds to fund the offered Prepayment(s) pursuant to the Offer(s) made herein.~~}~~

The Offeror hereby elects Alternative ___ for each Offer submitted herein. Initial here: _____.

Part IV. Estimated TIC and Initial Spread, Applicable Only to Offers to be Financed with Bonds

If the Offeror has selected Alternative # 2 or Alternative # 3 in Part III, the Offeror may establish an Off-Ramp under Paragraph 6(c)(ii)(A) of the RFO by providing the information in (1) – (4) of this Part IV as part of this Offer(s). Failure to provide such information shall mean that the Offeror has irrevocably waived its right to that Off-Ramp.

For purposes of this Part IV:

- “Offer Date Tested Bonds” means Bonds with characteristics described in (1) below that might be sold on November 29, 2012 and issued on November 30, 2012 to finance all or ~~before April 1, 2013 to finance all or~~ a portion of the Prepayment with respect to this Offer, with level monthly payments of principal and interest (or level monthly deposits to a mandatory debt service sinking fund),

commencing ~~May~~February 1, 2013 and ending ~~October~~June 1, 2028.

- “True Interest Cost” or “TIC” means with respect to Offer Date Tested Bonds, the rate of interest, compounded semiannually, that would be required to discount (i) the payments of principal and interest to holders of Offer Date Tested Bonds to maturity to (ii) the purchase price paid by buy-and-hold investors in the Offer Date Tested Bonds. Thus, TIC on Offer Date Tested Bonds is determined without regard to costs of issuing the Offer Date Tested Bonds, funded interest, any amounts deposited to a debt service reserve account, or amounts paid for bond insurance or other credit enhancement with respect to the Offer Date Tested Bonds.
- (1) As of ~~the Offer Deadline, November 30, 2012~~, the Offeror reasonably expects that Bonds with the following general characteristics *[for example, the Offeror’s senior lien electric system revenue bonds, the Offeror’s subordinate lien electric revenue bonds, other]* will be issued to fund a portion or all of the Prepayment(s) required pursuant to the Offer(s) made herein:
[]
- (2) As published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/page/s/textview.aspx?data=yield>, the yield on 10-year U.S. Treasury obligations on November 29, 2012 was [X.XX] percent per annum (carried out to the second decimal).
- (3) ~~(2) Under conditions in the capital markets as of the Offer Deadline, If Offer Date Tested Bonds were sold on November 29, 2012 for delivery on November 30, 2012,~~ the Offeror reasonably expects the TIC on those Offer Date Tested Bonds ~~to would~~ be no more than [Y.YY] percent per annum (carried out to the second decimal).
- (4) ~~(3) Consequently, under conditions in the capital markets as of the Offer Deadline, November 29, 2012,~~ the Offeror reasonably expects the TIC on Offer Date Tested Bonds ~~will would not~~ exceed the [X.XX] percent per annum (carried out to the second decimal) yield on 10-year U.S. Treasury obligations ~~at the close of business on the business day immediately preceding the day of the Offer Deadline (as communicated by BPA to potential Offerors under Paragraph 4(d) of the RFO) for November 29, 2012,~~ published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/page/s/textview.aspx?data=yield>, by no more than [Z.ZZ] percent per annum (carried out to the second decimal) ~~(“Initial Spread”).~~

Part V. Market Rate Adjustment Election

For all Offer(s) submitted herein, the Offeror must elect one of the following Alternatives:

Alternative #A: The Offeror elects to apply the Market Rate Adjustment to the Purchase Price set forth in Part III.

Alternative #B: The Offeror elects **not** to apply the Market Rate Adjustment to the Purchase Price set forth in Part **III**.

The Offeror hereby elects Alternative #__ for each Offer submitted herein. Initial here: _____.

Part VI. Authority of the Undersigned

The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Offer on behalf of the Offeror.

Date: _____, 2012

[NAME OF OFFEROR]

By: _____
[Title]

By	_____
Name	_____ (Print/Type)
Title	_____
Date	_____

**FORM OF CERTIFICATION OF EXPECTED
TRUE INTEREST COST AND INITIAL SPREAD**

The undersigned hereby certifies as follows in connection with the offer(s) (the "Offer(s)") submitted by [_____] (the "Offeror") in response to the Request for Offers of Bonneville Power Administration), dated ~~August 6,~~ 14, 2012. Unless otherwise provided, capitalized terms in this Certification of Expected True Interest Cost and Initial Spread ("Certification") shall have the meanings assigned to such terms in the Offer(s) to which this Certification is attached:

1. The undersigned is an officer of [FINANCIAL ADVISOR] (the "Advisor") and is duly authorized to execute and deliver this Certification on behalf of the Advisor.
2. The Advisor serves as an independent financial advisor to the Offeror in connection with the Offer(s).
3. The undersigned has reviewed the Offer(s).
4. Under conditions in the capital markets on the date of this Certification, the Advisor certifies that it is reasonable for the Offeror to expect:
 - a. the TIC on Offer Date Tested Bonds ~~will~~would be no greater than [~~—~~X.XX] percent per annum (carried out to the second decimal), as set forth in the Offer; and
 - b. the Initial Spread ~~will~~therefore does not exceed [~~—~~X.XX] percent per annum (carried out to the second decimal).

Date: _____, 2012

[NAME OF ADVISOR]

By: _____

[Title]

By	_____
Name	_____ <i>(Print/Type)</i>
Title	_____
Date	_____

APPENDIX B

LIMIT ON AMOUNT OF OFFERS

Background - Net Billing Cushion. BPA and most preference customers (“Participants”) have entered into ~~individual~~^{separate} Net Billing Agreements to cover the costs of Energy Northwest’s Net Billed Projects. In these agreements, BPA has agreed to provide net billing credits against each Participant’s monthly bills for the purchase of power and related services received from BPA. These net billing credits ~~may~~^{are} to be applied against the Participant’s purchases of electricity or transmission service from BPA. In consideration of these net billing credits, each Participant has agreed to remit an equivalent amount of funds to Energy Northwest. ~~While BPA currently funds all of Energy Northwest’s costs for the Net Billed Projects on a current basis through direct cash payments, the Net Billing Agreements remain in effect, and net billing could be reinstated at any time.~~ Thus, a preference customer’s capacity to purchase Blocks from BPA could be constrained by the existing Net Billing Agreements. In the Net Billing Agreements, BPA and each Participant have covenanted not to enter into further agreements providing for payments (including credits) by BPA to the Participant unless, as determined by BPA, for each future Contract Year the total expected cash value of purchases of electricity and transmission services by the Participant from BPA will equal at least 115% of the aggregate of all expected billing credits to be provided by BPA to the Participant under the Energy Northwest Net Billing Agreements and any additional agreements providing for net billing.^{†*} BPA has entered into certain direct payment arrangements with Energy Northwest which ~~may obviate net billing,~~ ~~depending on the existence of certain conditions now in effect.~~ Direct payments could cease however, and net billing could be reinstated. For purposes of this calculation, direct payments and the existence of the direct payment arrangements are assumed not to exist.

Prepayment Limit. Offerors may not submit Offers to purchase Blocks representing an aggregate annual value of electricity exceeding the lesser of:

(A) for any Contract Year from 2014 through 2018, the smallest amount of:

$$L + M - N(1.15)$$

where L = amount BPA expects to bill the Offeror for purchases of firm power during the Contract Year, M = amount BPA expects to bill the Offeror for purchases of transmission services during the Contract Year, and N = the Offeror’s expected aggregate net billing obligations (in the absence of BPA direct payment) during the Contract Year; or

(B) 50% of the smallest amount expected to be paid by the Offeror to BPA for firm power purchased during any Contract Year from 2014 through 2018.

^{†*} See, for example, the Project 2 (now Columbia Generating Station) Net Billing Agreements, Section 7(d) (“The Administrator and the Participant shall not enter into any agreements providing for payments [this means net billing credit obligations] which the Administrator estimates will cause the aggregate of his billings to the Participant to be less than 115 percent of the Administrator’s net billing obligations to the Participants under all agreements providing for net billing.”), and Section 7(g) (“The estimates by the Administrator under this agreement of billing credits and of payments to be made by the Participant and the Administrator giving rise to such billing credits shall be conclusive.”).

APPENDIX C

NOTICE OF ESTABLISHMENT OF A LOCK-IN DATE

1. Under [its][certain] Offer(s) submitted to and accepted by the Bonneville Power Administration (“BPA”) in connection with its Request for Offers, dated August 14, 2012 (“RFO”), the entity on behalf of which this Notice is provided (“Customer”) has designated in its Offer(s), that the Purchase Price to be paid for the related Offer(s) accepted by BPA will be subject to later adjustment (“Market Rate Adjustment”) and that the contract(s) formed in respect of such Offer(s) may be terminated by [Name of Customer] under the Adjustment Cap Off-Ramp under Paragraph 6(c)(i) of the RFO (“Adjustment Cap Off-Ramp”).
2. As provided in Paragraph 5 of the RFO, the Customer hereby establishes [_____], 201_, as the Lock-In Date with respect to the following accepted Offer(s):

CONSOLIDATORS

[Description of accepted Offer(s) to which this Notice applies.]

This designated Lock-In Date is a business day, is not earlier than three (3) business days following the date of this Notice, and is not later than March 19, 2013.

3. Customer may cancel the Lock-In Date designated in this Notice at any time prior to 5:00 PM Pacific Time on the designated Lock-In Date, effective at the time BPA receives notice thereof, at which point the Customer shall be free to designate a new Lock-In Date by notice to BPA, subject to the limitation in Paragraph 2 of this Notice that in no instance shall the new Lock-In Date be later than the earlier of (i) three (3) business days following the date of this Notice, or (ii) March 19, 2013.

4. ~~The PSAs of some preference customers permit them to purchase electricity from BPA for the purpose of reselling that electricity to other preference customers that would otherwise qualify to purchase electricity directly from BPA. For example, a preference customer with a high prepayment limit (it has available prepayment billing capacity from BPA to purchase a relatively large number of Blocks) might invite one or more other preference customers (“Co-Participants”) to make prepayments to the Offeror in an amount equal to all or a portion of the Prepayment the Offeror is required to make to BPA for a single Block. The Offeror would promise to make periodic cash payments back to each Co-Participant as Prepayment Credits accrue with respect to that Block. The Offeror would use the prepayment(s) it receives from each Co-Participant to fund a portion or all of the Offeror’s Prepayment to BPA for that Block. In this way, preference customers might participate indirectly in the economic benefits and responsibilities of the Prepayment program even if BPA advises them that they are not eligible to offer to purchase as much as a single whole Block directly for their own account.~~ undersigned is an officer of Customer and is duly authorized on behalf of the Customer to execute and deliver this Notice of Exercise of Adjustment Cap Off-Ramp on behalf of the Customer.

[NAME OF CUSTOMER]

By _____

Name _____

(Print/Type)

Title _____

Date _____

APPENDIX D

CERTIFICATION OF INDEPENDENT OFFER(S)

The undersigned hereby certifies as follows in connection with all offer(s) (“Offer(s)”) submitted by [_____] (“Offeror”) in response to the Request for Offers of Bonneville Power Administration (“BPA”), dated ~~August 6,~~ August 14, 2012 (the “RFO”):

1. The undersigned is an officer of the Offeror and is duly authorized to execute and deliver this Certification of Independent Offer(s) on behalf of the Offeror.
2. The undersigned participated actively in the Offeror’s preparation of the Offer(s), including the decision as to the price(s) to be included in the Offer(s).
3. In preparing and submitting the Offer(s), ~~except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers,~~ neither the Offeror nor any officer or employee of the Offeror directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.
4. To the best of the knowledge and belief of the undersigned, ~~except to the extent necessary to submit a consolidated Offer(s) in whole or in part on behalf of other preference customers,~~ no individual who has provided consulting services to the Offeror in connection with the Offeror’s preparation of the Offer(s) directly or indirectly consulted with officers, employees or individual consultants of other preference customer of BPA about the price(s) offered or to be offered by the Offeror or by such other preference customers in response to the RFO.

Date: _____, 2012

[NAME OF OFFEROR]

By: _____
[Title]

By _____

Name _____

(Print/Type)

Title _____

Date _____

APPENDIX E

MARKET RATE ADJUSTMENT

Market Rate Adjustment = (as defined and explained in Paragraph 5) =

5

$$P_{m+1} = P_t$$

where:

$$P_{t+1} \equiv \sum_{m=1}^N \frac{C_m}{(1 + r_{t+1}/12)^m}$$

$$P_t \equiv \sum_{m=1}^N \frac{C_m}{(1 + r_t/12)^m}$$

~~N~~ = ~~Total number of months for which power is prepaid (the Credit Commencement Date through September 30, 2028).~~

P_{t+1} = Market Clearing Purchase Price per Block as adjusted by Market Rate Adjustment as of the Lock-In Date

P_t = ~~Purchase Price per Block as of the Bid Deadline~~ Market Clearing Purchase Price per Block (RFO Paragraph 4(g), announced on December 4, 2012 (RFO, Paragraph 4(h)(iii))

r_t = ~~$i_t + \delta$, where i_t = 10-year Treasury TIC as of the Bid Deadline~~

δ = ~~basis as defined by Market Clearing Price~~

N = 186 (Total number of months for which power is prepaid -- April 1, 2013 through September 30, 2028)

C_m = \$50,000 (Prepayment Credit per Block for month m)

r_{t+1} = ~~$i_{t+1} + \delta$, where i_{t+1} = 10-year Treasury TIC as of the Lock-In Date~~ yield on 10-year Treasury obligations for the Lock-In Date, as published by the U.S. Department of the Treasury at

C_i = ~~Prepayment Credit per Block for month i~~ <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>

δ = Basis as defined by Market Clearing Purchase Price (RFO Paragraph 4(g)) announced on December 4, 2012 (RFO, Paragraph 4(h)(iii))

r_t = ~~$i_t + \delta$, where i_t = yield on 10-year U.S. Treasury obligations for~~ November 29, 2012, as published by the U.S. Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>

APPENDIX F

EXERCISING THE OFFEROR OFF-RAMPS UNDER PARAGRAPHS 6(c)(i) AND 6(c)(ii)(A) (BOND-RELATED OFF-RAMPS) OF THE RFO

APPENDIX F, PART II – FORM OF NOTICE OF TERMINATION UNDER PARAGRAPH 6(c)(ii)(A) OF THE RFO

A. Estimated TIC and Termination Spread:

[Name of Awarded Customer] has established the Offeror Off-Ramp under Paragraph 6(c)(ii)(A) of the RFO (“Off-Ramp”) under certain Offers submitted to and accepted by the Bonneville Power Administration (“BPA”) in connection with its Request for Offers, dated August 14, 2012 (“RFO”), and therefore may exercise such Off-Ramp with respect to any accepted Offer for which such Off-Ramp has been established, but only if [Name of Awarded Customer] provides to BPA the information as provided in this Part II of this Appendix F to the RFO, together with the attached certification of the financial advisor to the [Name of Awarded Customer].

Unless otherwise provided, capitalized terms in this Notice of Termination under Paragraph 6(c)(ii)(A) (Bond-Related Off-Ramps) of the RFO (“Notice”) shall have the meanings assigned to such terms in the RFO.

B. Definitions:

For purposes of this Appendix F, Part II:

- “Lock-In Date Tested Bonds” means Bonds with characteristics described in (C)(2) below that might be sold on Lock-In Date and issued on or about March 29, 2013 to finance all or a portion of the Prepayment with respect to this Offer, with level monthly payments of principal and interest (or level monthly deposits to a mandatory debt service sinking fund), commencing June 1, 2013 and ending October 1, 2028.
- “True Interest Cost” or “TIC” means with respect to Lock-In Date Tested Bonds, the rate of interest, compounded semiannually, that would be required to discount (i) the payments of principal and interest to holders of Lock-In Date Tested Bonds to maturity to (ii) the purchase price paid by buy-and-hold investors in the Lock-In Date Tested Bonds. Thus, TIC on Lock-In Date Tested Bonds is determined without regard to costs of issuing the Lock-In Date Tested Bonds, funded interest, any amounts deposited to a debt service reserve account, or amounts paid for bond insurance or other credit enhancement with respect to the Lock-In Date Tested Bonds.

C. Information:

1. The Lock-In Date for the Prepayment(s) in connection with the accepted Offers is [INSERT DATE], 201_.
2. In its Offer(s) dated November 30, 2012, the Awarded Customer certified that it reasonably concluded that Bonds with the following general characteristics were planned to be issued to fund the Prepayment(s).

required pursuant to the Offer(s) accepted by BPA under the RFO:

[_____]

3. In Part IV of the Offer, the Offeror estimated that the Initial Spread to be not greater than [Z.ZZ] percent per annum (carried out to the second decimal).
4. Under conditions in the capital markets on the Lock-In Date for the Offer(s), [Name of Awarded Customer] reasonably estimates the TIC on Offer Date Tested Bonds would be no less than [Y.YY] percent per annum (carried out to the second decimal).
5. As published by the United States Department of the Treasury at <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>, the yield on 10-year U.S. Treasury obligations for the business on the business day immediately preceding the Lock-In Date for the Offer(s) was [X.XX] percent per annum (carried out to the second decimal).
6. Consequently, under conditions in the capital markets on the Lock-In Date for the Offer(s), [Name of Awarded Customer] reasonably estimates that the TIC on Tested Bonds would exceed [X.XX] percent per annum by at least [Z.ZZ] percent per annum (carried out to the second decimal), and is greater than 0.25 percent per annum.

D. Exercise of Off-Ramp Right:

[Name of Awarded Customer] hereby irrevocably elects to terminate the contract formed in respect of its Offer(s) to which Paragraph 6(c)(ii)(A) of the RFO applies, including without limitation its obligation to make Prepayments with respect to the [Insert Number] Blocks associated with that (those) Offer(s).

E. Certification of Authorized Officer:

The undersigned is an officer of [Name of Awarded Customer] and is duly authorized on behalf of the [Name of Awarded Customer] to execute and deliver this notice of termination under Paragraph 6(c)(ii)(A) of the RFO on behalf of the [Name of Awarded Customer].

[NAME OF AWARDED CUSTOMER]

<u>By</u>	_____
<u>Name</u>	_____ <i>(Print/Type)</i>
<u>Title</u>	_____
<u>Date</u>	_____

APPENDIX F

EXERCISING THE OFFEROR OFF-RAMPS UNDER PARAGRAPHS 6(c)(i)
AND 6(c)(ii)(A) OF THE RFO

APPENDIX F, PART III – FORM OF NOTICE OF TERMINATION UNDER
PARAGRAPH 6(c)(ii)(A) OF THE RFO, CERTIFICATION BY FINANCIAL
ADVISOR

The undersigned hereby certifies as follows in connection with the Notice of Termination under Paragraph 6(c)(ii)(A) of the RFO (“Termination Notice”) submitted by [Name of Awarded Customer] dated [INSERT DATE], 201_, in connection with the RFO. Unless otherwise provided, capitalized terms in this Certification of True Interest Cost and Termination Spread (“Certification”) shall have the meanings assigned to such terms in the Termination Notice to which this Certification is attached:

- A. The undersigned is an officer of [NAME OF FINANCIAL ADVISOR] (the “Advisor”) and is duly authorized to execute and deliver this Certification on behalf of the Advisor.
- B. The Advisor serves as an independent financial advisor to the [Name of Awarded Customer] in connection with the Termination Notice.
- C. The undersigned has reviewed the Termination Notice.
- D. Under conditions in the capital markets on the Lock-In Date for the Offer(s), the Advisor certifies that it is reasonable for the [Name of Awarded Customer] to conclude: the TIC on Lock-In Date Tested Bonds would be no less than [Y.YY] percent per annum (carried out to the second decimal), as set forth in the Termination Notice.

APPENDIX F

[NAME OF FINANCIAL ADVISOR]

By	_____
Name	_____ <i>(Print/Type)</i>
Title	_____
Date	_____

[Form for exercising Offeror Off-Ramp Right by reason of Termination Spread—To Come]

APPENDIX G

OFFEROR OFF-RAMPS FOR NON-CLOSING OF FINANCING

As described in Paragraph 6(c)(ii)(B) of the RFO, an Awarded Customer that is proposing to use proceeds of Bonds to fund its Prepayment(s) shall have the right to terminate its obligation to make Prepayments if any of the following conditions exists and such condition has or conditions have resulted in or will result in either (a) a failure to enter into a Bond Purchase Agreement within three (3) business days following the Lock-In Date, or (b) a failure to close the related Bond sale by ~~the Prepayment Deadline~~ March 29, 2013:

1. the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any outbreak of hostilities or escalation thereof or other national or international calamity or crisis or a financial crisis, the effect of such outbreak, calamity or crisis on the financial markets of the United States of America being such as, in the reasonable opinion of the Bond purchaser or underwriter, would affect materially and adversely the marketability of the Bonds;
2. there shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or [host state] or a material disruption in commercial banking activities or securities settlement or clearance services shall have occurred;
3. there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any rating by Moody's, S&P or Fitch of the Bonds, or debt instruments of a character and credit quality similar to the Bonds, or any other securities issued by the Bond Issuer;
4. as of the Lock-In Date, an event shall have occurred which might or would cause an Official Statement or other offering document for Bonds, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or
- ~~5.~~ legislation shall be enacted, or actively considered for enactment, or a decision by a court of competent jurisdiction shall hereafter be rendered, or action shall hereafter be taken or a ruling or regulation shall hereafter be issued by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject, to the effect that the issuance, offering or sale of the Bonds, or obligations of the general character of the Bonds, is in violation of, or that such obligations are not exempt from the registration, qualification under or other similar requirements of, the Securities Act of 1933, amended and as then in effect, or of the Trust Indenture Act of 1939, as amended and as then in effect.

APPENDIX H

FORM OF REVISION TO EXHIBIT D TO PSA

Revision No. ~~«#»~~, Exhibit D
ADDITIONAL PRODUCTS AND SPECIAL PROVISIONS
Effective ~~«Insert Date BPA Receives Prepayment Amount»~~ on March 29, 2013

This revision adds section ~~«#»~~ to this Exhibit D to capture the terms and conditions of ~~«Customer Name»~~'s participation in the prepayment program and renumbers the Revisions section.

#. «CUSTOMER NAME»'S PARTICIPATION IN PREPAYMENT PROGRAM

#.1 General

Drafter's Note: If customer participates in more than one prepay program, repeat (copy and paste) the paragraph below for each year/program the customer participates in; insert additional "«Year» RFO" throughout document as necessary.

~~«Customer Name»~~ submitted one or more offers under BPA's "Request for Offers for ~~Prepaid~~ Prepayment of Electricity," ~~dated «insert date»~~ Contract No. 12PS-«#####», "«Year» ~~Prepay~~ Prepayment RFO) to purchase "Blocks" as defined in the ~~«Year» Prepay RFO~~ Prepayment RFO. *Drafter's Note: Include the following sentence for Slice/Block customers: «The use of the term "Blocks" is not intended to have the same definition as Blocks of power or the Block product as otherwise defined in the body of the Agreement.»* BPA has accepted ~~«Customer Name»~~'s offer(s) under the conditions provided in the ~~«Year» Prepay RFO~~ Prepayment RFO. A Prepayment is the dollar amount prepaid by ~~«Customer Name»~~ for a single Block.

By virtue of the offer(s) submitted by ~~«Customer Name»~~ to BPA under the ~~«Year» Prepay~~ Prepayment RFO and the acceptance by BPA thereof, ~~«Customer Name»~~ and BPA contracted, among other things, to the following obligations: (1) ~~«Customer Name»~~ has agreed to provide in aggregate \$«insert \$ amount» as a prepayment (with respect to the Prepayment(s) by «Customer Name» (such aggregate amount is referred to herein as the Unadjusted Prepayment Amount) for electric power to be delivered by BPA under this Agreement, as modified by the Market Rate Adjustment pursuant to Paragraph 5(d) of the «Year» Prepayment RFO, if elected by «Customer Name» (the Prepayment Amount); provided, that, to the extent no Market Rate Adjustment pursuant to Paragraph 5(d) of the «Year» Prepayment RFO was elected by «Customer Name», the Prepayment Amount shall be identical to the Unadjusted Prepayment Amount), and (2) conditioned upon receipt by BPA of the Prepayment Amount from

«Customer Name», BPA shall provide to «Customer Name» : (a) certain Prepayment Credits, which shall entitle «Customer Name» to reductions to the amount on «Customer Name»'s monthly power bill that would otherwise be owed to BPA for electric power (also referred to herein as “electricity”) purchased under this Agreement, and (b) certain cash remittances that may arise if Excess Prepayment Credits are deemed assigned to other BPA power customers as set forth in section #.3 of this exhibit. The Prepayment Credits are defined to be the dollar amounts that a customer making an electric power Prepayment under a Prepayment RFO (Prepaying Customer) would have paid in the related month but for the amount it prepaid, and are reductions to the amount that otherwise would be payable with respect to the Prepaying Customer's purchases of electricity from BPA. Thus, the quantity of electricity (megawatts or megawatt-hours) to which a Prepayment applies shall vary, depending on BPA's rates and rate schedules that apply to electricity purchases by the Prepaying Customer (or BPA's rates and rate schedules that apply to electricity purchases by any deemed assignee of Prepayment Credits under section #.3 of this exhibit). The Prepayment Credits reflect the value of electricity attributable to the Prepayment(s) made by «Customer Name» for each month as set forth in the Prepayment Credit Schedule(s) provided in section #.3.1 of this exhibit. Prepayment Credits are associated with and reflect the right of «Customer Name» to receive delivery of a specified value of electricity from BPA each month. ~~The Prepayment Credits are the dollar amounts that a customer making a electric power prepayment under a Prepay RFO (Prepaying Customer) would have paid in the related month but for the amount it prepaid, and are reductions to the amount that otherwise would be payable with respect to the Prepaying Customer's purchases of electricity from BPA.~~

#.2 Effective Date and Termination of ~~Prepay~~Prepayment Obligations

Drafter's Note: If the customer participates in more than one prepayment program, the revision number and the year of the ~~Prepay~~Prepayment RFO in following paragraph should reflect the most recent year that the customer participated in a prepay program. This Revision No. «#» to Exhibit D was executed by «Customer Name» in connection with its submission of one or more offers to purchase Blocks under the «Year» ~~Prepay~~Prepayment RFO and was subsequently executed by BPA after inclusion of the Unadjusted Prepayment Amount and Prepayment Credit Schedule derived under the offer(s) and acceptance thereof by BPA under the «Year» ~~Prepay~~RFO. ~~Prior to BPA's execution of this Revision No. «#» to Exhibit D, BPA provided the Prepayment Amount and Prepayment Credit Schedule, included in section #.3.1 of this exhibit, to «Customer Name» for review to assure that the Prepayment Amount and Prepayment Credit Schedule are consistent with the offer(s) by~~

~~«Customer Name» and the acceptance thereof by BPA under the «Year» Prepay RFO. Prepayment RFO.~~

Drafter's Note: If customer participates in more than one prepayment program, insert additional appropriate date and "«Year» Prepayment RFO".

The provisions under ~~this~~ section # of this exhibit, shall take effect ~~upon the receipt by BPA of the Prepayment Amount on March 29, 2013~~ and shall remain in effect until all obligations hereunder are satisfied; provided, however, that, if (1) BPA for any reason does not receive the Prepayment Amount on or before ~~«date», which is the "Prepayment Deadline" as defined in the «Year» Prepay RFO, March 29, 2013,~~ or (2) the obligations of «Customer Name» to provide the Prepayment Amount and the obligations of BPA to provide Prepayment Credits are terminated under the provisions of the ~~«Year» Prepay~~ Prepayment RFO and the contract(s) formed thereunder, then the provisions of this section # of this exhibit shall also be terminated and shall have no ~~future~~ further force or effect.

#.3 Obligation to Provide Prepayment Credits/Remit Cash Payments

#.3.1 Scheduled Prepayment Credits

Upon receipt by BPA of the Prepayment Amount from «Customer Name», BPA shall provide to «Customer Name» Prepayment Credits throughout the remaining term of this Agreement as provided under the following Prepayment Credit Schedule:

«Customer Name»'s Prepayment Credit Schedule Under the «Year» Prepay <u>Prepayment</u> RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013	N/A	N/A	N/A	N/A	N/A	N/A							
FY 2014-2028													
Note: The prepayment program offered in 2012 only allowed for equal Prepayment Credits every month from April 2012 <u>2013</u> through the remaining term of the Agreement.													

Drafter's Note: For offer in 2012, the next paragraph and table should be deleted. Include the following for customers that participate in more than one year of Prepay Programs. If the customer participates in a subsequent prepay program, the table below should be filled in to represent the prior Prepayment Credit Schedule(s) that is included in section #.3.1 below.

«Customer Name» previously has made one or more Prepayments to BPA in return for the right to purchase electric power from BPA pursuant to this Agreement, represented by monthly Prepayment Credits for Fiscal Years 2013 through 2028 as follows:

«Customer Name»'s Pre-Existing Prepayment Credit Schedule Under the «Year» PrepayPrepayment RFO													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total Annual
FY 2013	N/A	N/A	N/A	N/A	N/A	N/A							
FY 2014-2028													
Note: «Insert any information needed specific to the subsequent Prepay RFP Prepayment Credit Schedule»													

End Option

In certain circumstances BPA shall remit cash to «Customer Name» as provided in section #.3.2 of this exhibit. Prepayment Credits that are not otherwise applied shall carry forward to future months as provided in section #.3.3 of this exhibit.

So long as the amount of «Customer Name»'s monthly bill exceeds the monthly amount of the Prepayment Credit, then «Customer Name» shall pay BPA the net amount due after the Prepayment Credit is applied, consistent with the billing and payment terms and conditions of section 16 of the body of this Agreement.

#.3.2 Deemed Assignments Where Prepayment Credits Are Greater Than Monthly Amount Owed

If the amount of «Customer Name»'s monthly bill for electric power is less than the month's Prepayment Credit (including any Carry Forward Prepayment Credit described in section #.3.3 of this exhibit), which shall be called Excess Prepayment Credit, then BPA shall apply the methodology set forth in section #.3.5 of this exhibit to (1) deem the Excess Prepayment Credit to be assigned to other customers' electric power purchases from BPA in such month and (2) to the extent of such deemed assignments, remit as a cash payment to «Customer Name» an amount equal to the Excess Prepayment Credit.

#.3.3 Carry Forward of Prepayment Credits

- (1) In the event that electric power purchases from BPA by other customers in an applicable month are insufficient to enable deemed assignments of all Excess Prepayment

Credits of all Prepaying Customers with respect to that month under section #.3.2 of this exhibit, the excess representing «Customer Name»'s share (Carry Forward Prepayment Credits) shall accumulate. In each succeeding month, after applying the scheduled Prepayment Credit ~~«Drafter's Note: if customer is participating in more than one prepayment program, add an "s" to Credit»~~(s) under section #.3.1 of this exhibit, BPA shall either (a) apply «Customer Name»'s Carry Forward Prepayment Credits to «Customer Name»'s purchases of electric power from BPA during that month, or (b) give effect to deemed assignments of «Customer Name»'s Carry Forward Prepayment Credits that become Excess Prepayment Credits with respect to that month to the extent set forth in section #.3.2 of this exhibit.

- (2) The crediting under section #.3.3(1)(a) of this exhibit and the remittance of cash by BPA under ~~section~~sections #.3.3(1)(b) and #.3.4 of this exhibit shall continue until such time as the balance of Carry Forward Prepayment Credits and Excess Prepayment Credits for «Customer Name» is zero; provided, however, that, the application of «Customer Name»'s Carry Forward Prepayment Credits to «Customer Name»'s purchases of electric power from BPA under section #.3.3(1)(a) of this exhibit shall extend past November 30, 2032 but only if and to the extent there is in effect between «Customer Name» and BPA one or more agreements for the sale of electric power by BPA to «Customer Name» after such date. BPA's obligations in this section #.3.3 shall survive the termination or expiration of this Agreement and upon termination or expiration of this Agreement shall continue in effect with respect to future power sales by BPA, including to «Customer Name» and shall constitute a wholly independent obligation of BPA in consideration of its receipt of the Prepayment Amount.
- (3) BPA shall have no obligation to compensate «Customer Name» for any actual or implied cost of funds or the time value of money arising from the occurrence, accumulation, application, deemed assignment or use of Carry Forward Prepayment Credits or Excess Prepayment Credits.
- (4) In no event shall BPA be required to remit cash payments to «Customer Name» if, for any reason,

«Customer Name» does not use its Prepayment Credits and BPA is unable to assign resulting Excess Prepayment Credits to other customers as set forth in this section # of this exhibit.

#.3.4 Remittance of Cash by BPA

BPA shall remit cash payments to «Customer Name» under sections #.3.2 and #.3.3(2) of this exhibit via an electronic funds transfer by the ~~applicable bill's~~ Due Date for the month following the month in which the reassignments under sections #.3.2 and #.3.3(2) of this exhibit shall have been deemed to have been made. The term "Due Date" shall have the meaning as ~~it is~~ defined in section 16.2 of the body of this Agreement (or its equivalent date if this Agreement is no longer in effect). BPA shall transfer the remittances hereunder to «Customer Name»'s specified account to which BPA provides refunds under this Agreement.

#.3.5 Methodology for Deeming Assignments of Excess Prepayment Credits to Other Customers

Applying the principles set forth in this section ~~#.3.5, 3.5 of this exhibit~~, BPA shall make deemed assignments of Excess Prepayment Credits to other customers only to the extent that such other customers' cash payments for electric power purchases from BPA during the applicable month are greater than or equal to the aggregate of all Excess Prepayment Credits attributed by BPA to «Customer Name» and to other Prepaying Customers for the applicable month.

(1) Deemed Allocations Only to Non-Prepaid Purchases of Electric Power

Excess Prepayment Credits shall not be deemed to be assigned to any customer with respect to electric power purchased by that customer from BPA pursuant to any prepay contract.

(2) Deemed Allocations Only to the Extent of Payments Actually Received by BPA

Excess Prepayment Credits shall be deemed to be assigned to other customers only to the extent such other customers in fact have made payment to BPA on or before ~~[the last day of the following calendar month]~~.

(3) Qualified Utilities

For purposes of this section #.3.5, a Qualified Utility shall be defined as a public body that is served by BPA and that has a retail service area that the public body has served continuously for at least five consecutive

years, as of ~~«date of «Customer Name»'s first prepayment».~~ March 29, 2013.

- (a) If «Customer Name» is a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other Qualified Utilities, then to other electric power customers that are not Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received by BPA ~~from~~for purchases of electric power from BPA from all such customers in the applicable month.
- (b) If «Customer Name» is not a Qualified Utility, then subject to sections #.3.5(1) and #.3.5(2) of this exhibit, any Excess Prepayment Credits shall be deemed to be assigned first to other customers that are not Qualified Utilities, then to Qualified Utilities, in each instance up to the extent of their respective non-prepaid purchases of electric power from BPA for the applicable month. However, such deemed assignments, together with all other deemed assignments arising under all other prepay contracts, shall not exceed the aggregate amount of cash received by BPA ~~from~~for purchases of electric power from BPA from all such customers in the applicable month.

(4) **Allocation of Deemed Assignments Among Prepaying Customers**

If the aggregate amount of Prepayment Credits for a month exceeds the aggregate amount paid by other customers to which those Prepayment Credits might be deemed assigned pursuant to section #.3.2 or section #.3.3 of this exhibit, then:

- (a) purchases by customers that are Qualified Utilities but not Prepaying Customers shall first be allocated pro rata to Excess Prepayment Credits of Qualified Utilities;

- (b) purchases by customers that are not Qualified Utilities and not Prepaying Customers shall first be allocated pro rata to Excess Prepayment Credits of non-Qualified Utilities; and
- (c) any remaining purchases by customers that are not Prepaying Customers shall be deemed assigned pro rata to the Excess Prepayment Credits remaining after applying section #.3.5(1) and section #.3.5(2) of this exhibit.

#.4 Rights and Remedies

#.4.1 Withholding Performance

No provision in this section [# of this exhibit](#) shall allow or shall be interpreted to allow BPA to cease, suspend or withhold: (1) delivering electric power otherwise required to be delivered pursuant to this Agreement; (2) application of Prepayment Credits as described in sections #.3.1 and #.3.3 of this exhibit; (3) deemed assignments as described in sections #.3.2 and #.3.3 of this exhibit; or (4) remitting cash to or for the account of the Prepaying Customer as described in sections #.3.2 and #.3.3 of this exhibit.

#.4.2 No Refunds or Schedule Alterations

«Customer Name» shall have no right to a refund of any amount or balance remaining of its Prepayment Amount if this Agreement is terminated prior to September 30, 2028, pursuant to section 25 of the body of this Agreement. «Customer Name» may not alter the schedule of its Prepayment Credits [pursuant to section 25 of the body of this Agreement](#).

#.4.3 Money Judgments, No Acceleration

As set forth in section 22.4 of the body of this Agreement, money damages are the exclusive remedy available in the event BPA should fail to perform any of its obligations under this Agreement, including any failure by BPA to perform its obligations under this section [# of this exhibit](#). In no event may «Customer Name» cause any of BPA's obligations under this section [# of this exhibit](#) to come due prior to the date specified (for example, the customer may not seek, as a remedy, to have BPA give effect to Prepayment Credits prior to the Dates specified herein.). BPA's breach or non-performance under the provisions of this section [# of this exhibit](#) shall not lead to an acceleration of any kind of the future remaining performance of BPA's cash payment or crediting obligations hereunder. The provisions of this section [# of this exhibit](#) shall

not be interpreted to affect other obligations under this Agreement except as specifically provided herein.

#.5 No Guarantee by BPA of Any Bonds or Other Debt

Nothing in this Agreement establishes or shall be interpreted to establish a guarantee of the payment of principal of or interest on any bonds or other debt issued by or for the benefit of «Customer Name» to fund its Prepayment Amount or to refund or refinance such debt. If bonds are issued to fund a Prepayment, disclosure materials are prepared with respect to those bonds, and those disclosure materials include a description of the provisions in this section # of this exhibit, then those disclosure materials also shall include the following statement: *“The [Name of Bonds or related debt instrument(s)] are not a debt or other obligation of Bonneville Power Administration, and the [Name of Bonds or related debt instrument(s)] are not a charge on the full faith and credit of Bonneville Power Administration or on the Bonneville Fund.”*

#.6 No Third Party Beneficiaries, Limited Right to Assign

There are no third party beneficiaries to this section # of this exhibit, provided, however, «Customer Name» may pledge or otherwise grant a security interest in BPA’s remittances of cash reflecting (1) BPA’s deemed sales of electric power for the account of the «Customer Name» described in sections #.3.2, #.3.3 and #.3.4 of this exhibit, and (2) money damages arising from any breach by BPA of its obligations under this Agreement. However, «Customer Name» shall not assign its claims under the provisions of this section # of this exhibit or enter into any agreement that in any manner purports to provide to a third party a right to any electric power purchased from BPA (including under this section # of this exhibit) or to bring any legal action against BPA, to enforce the rights of «Customer Name» under the provisions of this section # of this exhibit against BPA. If «Customer Name» purports to make such an assignment or agreement, it shall have no effect.

X. SIGNATURES

The Parties have executed this exhibit revision as of the last date indicated below. Execution of this exhibit revision also constitutes execution of the «Year» Prepayment RFO, Contract No. 12PS-«#####».

«FULL NAME OF CUSTOMER» UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

<u>By</u> _____	<u>By</u> _____
<u>Name</u> _____ <i>(Print/Type)</i>	<u>Name</u> _____ <i>(Print/Type)</i>
<u>Title</u> _____	<u>Title</u> _____
<u>Date</u> _____	<u>Date</u> _____

Document comparison by Workshare Compare on Tuesday, August 14, 2012
1:32:41 PM

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Description	#751098541v4<USA> - 8_6_2012 Draft Prepayment RFO
Rendering set	Standard

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<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
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Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

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Deletions	284
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Moved to	18
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Format changed	0
Total changes	991