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

Presented to:
Customer Collaborative Sub-Group

October 26, 2006
Today’s Objective

• Illustrate the Treasury Borrowing Authority problem

• Provide background information on guidance received and legal authority for non-Federal financing

• Summarize key aspects of the Schultz-Wautoma lease-purchase transaction

• Describe BPA’s proposed lease-purchase program and the master-lease model
Limited Treasury Borrowing Authority
Remaining Borrowing Authority
(based on BPA’s FY 2007 Congressional Budget)

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

- In 1994, Congress “strongly encourage[d] the use [of] third-party financing as a means not only to reduce borrowing, but even more importantly, as a means to involve stakeholders and customers in a decision making process which is to meet their needs, now and in the future, and ultimately, for the benefit of the entire region.” H.R. Rep. No. 103-533, at 117 (1994).

- In 1996, both Houses of Congress in their reports to the FY 1996 budget stated their continued support for alternative financing sources, such as third-party financing, “to extend the availability of the current total borrowing authority.” H.R. Rep. No. 104-149, at 95 (1995); S. Rep. no. 104-120, at 120 (1995).

- In 1997, the Senate again stated its support for “alternatives such as the use of third-party financing to extend the availability of the current total borrowing authority.” S. Rep. No. 104-320, at 115 (1996).

- In 2003, Congress granted BPA $700 million in additional Treasury Borrowing Authority and encouraged BPA to seek additional financing for these projects through non-Federal sources.

- FY2003 President’s budget narrative language states, “…Bonneville will encourage private-sector or other non-Federal financing or joint financing of transmission line expansions and additions…”
BPA’s Legal Authority

- The Administrator of Bonneville “shall construct, improvements, betterments, and additions to and replacements of the [the transmission system]...as he determines are appropriate to . . . maintain the electrical stability and reliability of the Federal system...” (16 U.S.C. 838b)

- The Administrator of Bonneville “…may purchase or lease or otherwise acquire and hold such real and personal property in the name of the United States as he deems necessary or appropriate to carry out his duties pursuant to law.” (16 U.S.C. 838e)

- The Administrator of Bonneville may, in the name of the United States, “…acquire by purchase, lease, condemnation, or donation, such real and person property, or any interest therein, including lands, easements, rights-of-way, franchises, electric power lines, substations, and facilities and structures appurtenant thereto, to carry out the purposes of this Act.” (16 U.S.C. 832a(c))

- The Administrator of Bonneville may “…enter into contracts, agreements, and arrangements... upon such terms and conditions as he may deem necessary.” (16 U.S.C. 832a(f))

- The Administrator of Bonneville may “…make expenditures from the [Bonneville] fund... for any purpose necessary or appropriate to carry out the duties imposed upon the Administrator pursuant to law, including but not limited to...transmission over facilities of others an rental, lease, and lease-purchase of facilities.” ((16 U.S.C. 838i(b)(5))
Key Aspects of Schultz-Wautoma Lease-Purchase Transaction
BPA’s Open Process

• 2001: BPA sent out a Request for Proposal soliciting third-party financing arrangements

• 2001-2003: Reviewed and evaluated 14 proposals
  • Legal Authority (see page 7 for further explanation)
  • Financing Criteria (see page 10 for further explanation)

• 2003: Selected the Northwest Infrastructure Financing Corporation (NIFC) lease-purchase method

• 2003: Initiated various public filings:
  • FERC filing that requested NIFC exemption from regulatory authority
  • Washington State
    • Exemption from Real Property Tax
    • Exemption from Personal Property Tax
    • WUTC ruling on jurisdiction exemption
  • SEC ruling on PUHCA exemption

• 2004: NIFC public offering of debt including an Official Statement with an explanation of the transaction, lease agreement signed, construction agreement signed
Schultz-Wautoma Financing Criteria

- Title to the assets will be held by the third party.
- BPA will lease the assets from the third party for approximately 30 years.
- BPA will have exclusive use and control of the assets during the lease period.
- The third party issues taxable bonds that will be backed solely by lease revenues from BPA.
- Once the bonds are repaid at the end of the lease, BPA will have an option to acquire the assets at minimal additional cost or continue leasing the facilities.
## Component Costs of Schultz-Wautoma Lease-Purchase Transaction

### Lease-Purchase Transaction

**Northwest Infrastructure Financing Corporation**

**Lease Payment Calculation**

#### Debt Costs

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
<th>Total DS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,216,239</td>
<td>$3,216,239</td>
<td>$3,216,239</td>
</tr>
</tbody>
</table>

#### NIFC Annual costs

<table>
<thead>
<tr>
<th>Audit(1)</th>
<th>JW Mgmt (1)</th>
<th>JW Mgmt (2)</th>
<th>Potential(1)</th>
<th>Audit (2)</th>
<th>PW C</th>
<th>Trustee</th>
</tr>
</thead>
<tbody>
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<td>JW Mgmt</td>
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<td>PW C</td>
<td>Trustee</td>
</tr>
</tbody>
</table>

### Calculation of All in Cost of Funds

<table>
<thead>
<tr>
<th>Par Value</th>
<th>Underwriter's Discount</th>
<th>Cost of Issuance</th>
<th>Proceeds Target Amount</th>
<th>All in Cost of Funds</th>
</tr>
</thead>
</table>

#### Notes

1. **Inflation**: 194.300%
2. **Rate required to discount annual payments of principal, interest and ongoing costs back to net proceeds.**

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**Power Administration**

**Bonneville**

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194.300%
### Schultz-Wautoma Lease-Purchase Transaction

- The Schultz-Wautoma transaction was priced on March 9, 2004.

- Final pricing numbers came in under expectations.

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 year Federal Agency Interest Rate</td>
<td>5.23%</td>
</tr>
<tr>
<td>Northwest Infrastructure Bond Interest Rate</td>
<td>5.37%</td>
</tr>
<tr>
<td>Lease Transaction All-in Interest Rate*</td>
<td>5.52%</td>
</tr>
</tbody>
</table>

| Total Spread Above BPA’s Borrowing Rate:            | 0.29% |
| (30-year Federal Agency Interest Rate)             |       |

* Lease transaction all-in interest rate includes:
  - Audit fees
  - Annual fees
  - Trustee fees
  - Lease maintenance and legal fees
Lease-Purchase Program
and
Master-Lease Model
### Sample of Third-Party Candidates

<table>
<thead>
<tr>
<th>Project</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASHE SUBSTATION - DEVELOP BAY 8 FOR THE LOWER MONUMENTAL LINE</td>
<td>$4,130,000</td>
</tr>
<tr>
<td>UNDERWOOD TAP TO BONNEVILLE-ALCOA 115 KV RELIABILITY UPGRADE - INSTALL CIRCUIT SWITCHER</td>
<td>$442,400</td>
</tr>
<tr>
<td>FY 2007 BREAKER REPLACEMENTS DUE TO SHORT CIRCUIT CAPABILITY</td>
<td>$1,853,600</td>
</tr>
<tr>
<td>PALISADES - GOSHEN UPGRADE FROM 115 KV TO 161 KV</td>
<td>$10,959,480</td>
</tr>
<tr>
<td>REDMOND HARNEY 115KV LINE DISCONNECT REPLACEMENTS</td>
<td>$226,800</td>
</tr>
<tr>
<td>ASHE SUB - REPLACE GE 230-kV, PCB O-803 (A-401)</td>
<td>$368,200</td>
</tr>
<tr>
<td>BOUNDARY SUB - REPLACE MB SECTIONALIZING DISCONNECTS</td>
<td>$79,800</td>
</tr>
<tr>
<td>VARIOUS LOCATIONS - 115 KV CIRCUIT SWITCHER REPLACEMENTS</td>
<td>$1,297,800</td>
</tr>
<tr>
<td>LOOKOUT POINT SUB, REPLACE ALLIS-CHALM 115-KV, PCB O-796 (B-562)</td>
<td>$264,600</td>
</tr>
<tr>
<td>MILTON TAP TO WALLA WALLA-PENDLETON REBUILD</td>
<td>$1,580,320</td>
</tr>
<tr>
<td>LAGRANDE SUBSTATION - ADD THREE 230KV BREAKERS</td>
<td>$1,330,000</td>
</tr>
<tr>
<td>NORTH BONNEVILLE SUB - EG REPLACEMENT</td>
<td>$350,000</td>
</tr>
<tr>
<td>METALINE FALLS EG REPLACEMENT</td>
<td>$350,000</td>
</tr>
<tr>
<td>MT. SPOKANE EG REPLACEMENT</td>
<td>$350,000</td>
</tr>
<tr>
<td>VANTAGE ADDITION OF AN EG</td>
<td>$350,000</td>
</tr>
<tr>
<td>JACK MT ENGINE GENERATOR REPLACEMENT</td>
<td>$350,000</td>
</tr>
<tr>
<td>CONNELL/HATTON SERVICE IMPROVEMENT</td>
<td>$569,282</td>
</tr>
<tr>
<td>SIERRA PACIFIC WINNEMUCCA SUBSTATION - SWITCH REPLACEMENTS</td>
<td>$350,000</td>
</tr>
<tr>
<td>GOSHEN SUBSTATION ADD 161 KV BREAKER ON HIGH SIDE OF XFMRS</td>
<td>$350,000</td>
</tr>
<tr>
<td>CENTRALIA AREA SERVICE - CONSTRUCT NEW BPA SUBSTATION TAPPED TO BPA'S CHEHALIS-OLYMPIA 230 KV LINE</td>
<td>$14,000,000</td>
</tr>
<tr>
<td>MCNARY - BADGER CANYON 115 KV LINE UPGRADE</td>
<td>$3,780,000</td>
</tr>
<tr>
<td>HOOD RIVER SUBSTATION 115KV BUS TIE BREAKER</td>
<td>$691,600</td>
</tr>
<tr>
<td>NORTH BONNEVILLE SUB - INSTALL A MAIN BUS BREAKER</td>
<td>$70,000</td>
</tr>
<tr>
<td>GARRISON &amp; DWORSHAK SUB, REPLACE HSGS S (7883, 7885 &amp; 7117)</td>
<td>$350,000</td>
</tr>
<tr>
<td>LIBBY (FEC) - TROY REBUILD: SINGLE CIRCUIT 115 KV</td>
<td>$21,000,000</td>
</tr>
</tbody>
</table>
**Project Identification**

**STEP 1. Financing Decision.** Identify Third Party financing candidates with TOE, OGC, and Outside Counsel from TBL's approved project list.

**STEP 2. Gain preliminary approval from Third Party and Bank.**
Short-Term Lease Agreement

STEP 3. BPA enters into individual short term lease commitments with Third Party under the Master Lease Agreement.

STEP 4. Third Party enters into agreement with Bank for line of credit.

Step 5. Funds advanced from Bank.
Construction of Asset

STEP 6. Third Party enters into a Construction Agency Agreement with BPA

STEP 7. Draws based on forecasted expenditures

Third Party (Lessor)

BPA (Construction Agent)
BPA (Lessee)

STEP 8. Lease payments to Third Party

Third Party (Lessor)

STEP 9. Debt service payments to Bank

Bank
**Take-Out Financing**

**STEP 10.** Third Party transfers property ownership interest to another Third Party

**STEP 11.** BPA and Third Party execute long term lease agreement

**STEP 12.** Issue bonds

**STEP 13.** Bond proceeds paid to Third Party

**STEP 14.** Bond proceeds paid to Third Party

**STEP 15.** Third Party uses bond proceeds and amounts out of the Reserve Fund to pay off the line of credit with Bank.

**BPA (Lessee)**
Final Structure

BPA as Lessee

Aggregated individual lease commitments

Lease payments

Third Party

Debt service payments

Bond Holders

Notes:  
1. Long term bonds will have maturities commensurate with useful lives of bundled related assets 
2. At lease maturity, BPA pays nominal fee to acquire the assets
Agency FTE: 5.25

System Costs: Undetermined at this time

All-in Cost: 0.45-1.05%*

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Expected</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread of Taxable Municipal to Agency</td>
<td>0.30%</td>
<td>0.45%</td>
<td>0.90%</td>
</tr>
<tr>
<td>Lease Costs</td>
<td>0.15%</td>
<td>0.15%</td>
<td>0.15%</td>
</tr>
<tr>
<td>All in Cost</td>
<td>0.45%</td>
<td>0.60%</td>
<td>1.05%</td>
</tr>
</tbody>
</table>

Average Cost Per Year: $900,000* (equivalent to 0.15%)
- Transaction costs
- Lease costs
- BPA FTE

* Does not include additional system costs that may be required or incremental taxes
Over-Forecasting: Options Available

**Schultz-Wautoma**
- Make-Whole call
- Lease payment credit

**Master Lease**
- Reduction in take-out financing
- Lease payment credit

**Forecasted Annual Operating Expense**
- Lease payment credit

*All extra funds available will be used to reduce the financial obligation.*
Summary

- BPA’s capital needs exceed its current Treasury borrowing authority.
- Congressional and Presidential guidance supports our current path.
- BPA has legal authority to enter into lease-purchases.
- Two similar but distinct individual investment like models (Schultz-Wautoma and Master Lease)
- Lease-purchases are key tools to ensure adequate access to capital.
- BPA is receptive to alternative third-party financing models
  - No cost-effective alternative to date