

**Bonneville**



**Power Administration**

# ***BPA's Proposed Lease-Purchase Program (Third-Party Financing)***

Presented to:  
Customer Collaborative Sub-Group

October 26, 2006

- 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

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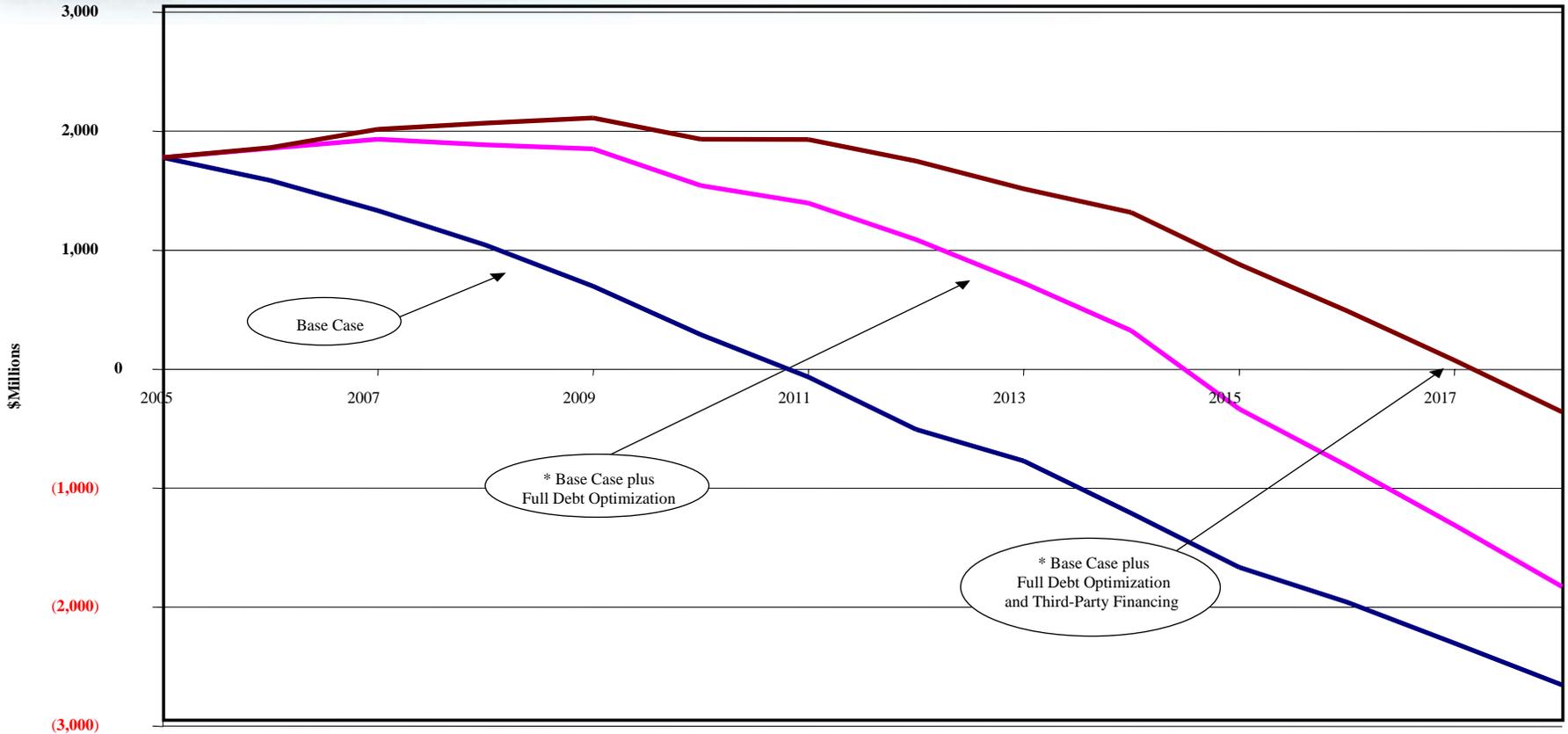


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# ***Limited Treasury Borrowing Authority***

# 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.

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***Guidance Received  
and  
BPA's Legal Authority***

- 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...”

- 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***

- 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

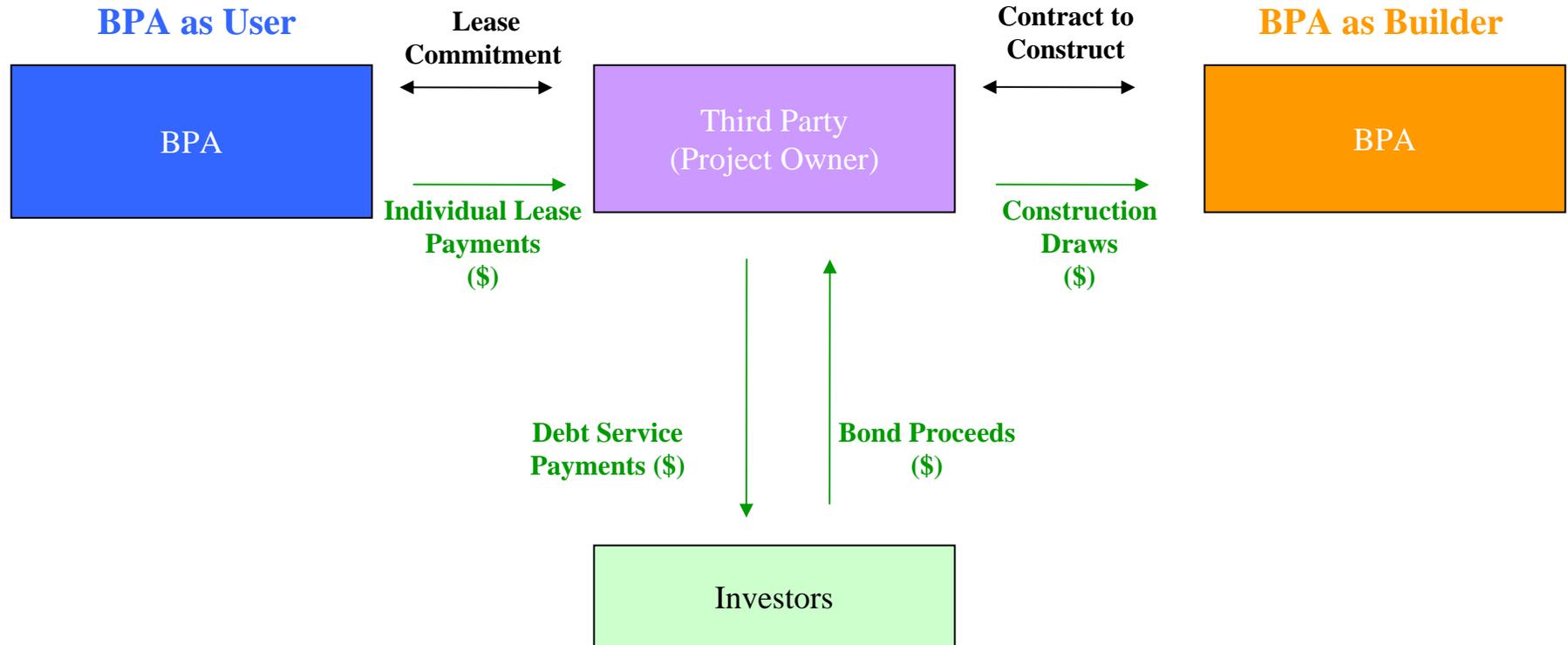
# Bonneville Schultz-Wautoma Financing Criteria



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- 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.

# Schultz-Wautoma Lease-Purchase Arrangement





# Component Costs of Schultz-Wautoma Lease-Purchase Transaction

## Northwest Infrastructure Financing Corporation Lease Payment Calculation

(1) Inflation 104.000%

Debt Costs			NIFC Annual costs						P.V.		
Principal	Interest	Total P.S.	Audit <sup>(1)</sup> (PWC)	JH Mgmt Trustee	JH Mgmt Annual Fee	JH Mgmt Maintenance	Potential <sup>(1)</sup> Legal Exp	All-in Lease Payment			
1	3/25/04										
2	7/1/04	1,715,327	1,715,327						1,715,327	1,690,615	
3	1/1/05	3,216,239	3,216,239	24,000	2,000	10,000	2,000	3,000	3,257,239	3,124,139	
4	7/1/05	3,216,239	3,216,239						3,216,239	3,002,011	
5	1/1/06	3,216,239	3,216,239	24,960	2,000	10,000	2,080	3,120	3,258,399	2,959,725	
6	7/1/06	3,216,239	3,216,239						3,216,239	2,843,011	
7	1/1/07	3,216,239	3,216,239	25,958	2,000	10,000	2,163	3,245	3,259,605	2,804,003	
8	7/1/07	3,216,239	3,216,239						3,216,239	2,692,433	
9	1/1/08	3,216,239	3,216,239	26,997	2,000	10,000	2,250	3,375	3,260,860	2,656,512	
10	7/1/08	3,216,239	3,216,239						3,216,239	2,549,830	
11	1/1/09	3,216,239	3,216,239	28,077	2,000	10,000	2,340	3,510	3,262,164	2,516,819	
12	7/1/09	3,216,239	3,216,239						3,216,239	2,414,779	
13	1/1/10	3,216,239	3,216,239	29,200	2,000	10,000	2,433	3,650	3,263,522	2,384,508	
14	7/1/10	3,216,239	3,216,239						3,216,239	2,286,882	
15	1/1/11	3,216,239	3,216,239	30,368	2,000	10,000	2,531	3,796	3,264,933	2,259,191	
16	7/1/11	3,216,239	3,216,239						3,216,239	2,165,759	
17	1/1/12	3,216,239	3,216,239	31,582	2,000	10,000	2,632	3,948	3,266,401	2,140,496	
18	7/1/12	3,216,239	3,216,239						3,216,239	2,051,051	
19	1/1/13	3,216,239	3,216,239	32,846	2,000	10,000	2,737	4,106	3,267,927	2,028,073	
20	7/1/13	3,216,239	3,216,239						3,216,239	1,942,418	
21	1/1/14	3,216,239	3,216,239	34,159	2,000	10,000	2,847	4,270	3,269,515	1,921,591	
22	7/1/14	3,216,239	3,216,239						3,216,239	1,839,539	
23	1/1/15	3,216,239	3,216,239	35,526	2,000	10,000	2,960	4,441	3,271,166	1,820,734	
24	7/1/15	3,216,239	3,216,239						3,216,239	1,742,109	
25	1/1/16	3,216,239	3,216,239	36,947	2,000	10,000	3,079	4,618	3,272,883	1,725,205	
26	7/1/16	3,216,239	3,216,239						3,216,239	1,649,839	
27	1/1/17	3,216,239	3,216,239	38,425	2,000	10,000	3,202	4,803	3,274,669	1,634,722	
28	7/1/17	3,216,239	3,216,239						3,216,239	1,562,456	
29	1/1/18	3,216,239	3,216,239	39,962	2,000	10,000	3,330	4,995	3,276,526	1,549,018	
30	7/1/18	3,216,239	3,216,239						3,216,239	1,479,702	
31	1/1/19	3,216,239	3,216,239	41,560	2,000	10,000	3,463	5,195	3,278,457	1,467,840	
32	7/1/19	3,216,239	3,216,239						3,216,239	1,401,330	
33	1/1/20	3,216,239	3,216,239	43,223	2,000	10,000	3,602	5,403	3,280,466	1,390,948	
34	7/1/20	3,216,239	3,216,239						3,216,239	1,327,110	
35	1/1/21	3,216,239	3,216,239	44,952	2,000	10,000	3,746	5,619	3,282,555	1,318,116	
36	7/1/21	3,216,239	3,216,239						3,216,239	1,256,820	
37	1/1/22	3,216,239	3,216,239	46,750	2,000	10,000	3,896	5,844	3,284,728	1,249,129	
38	7/1/22	3,216,239	3,216,239						3,216,239	1,190,253	
39	1/1/23	3,216,239	3,216,239	48,620	2,000	10,000	4,052	6,077	3,286,987	1,183,784	
40	7/1/23	3,216,239	3,216,239						3,216,239	1,127,212	
41	1/1/24	3,216,239	3,216,239	50,564	2,000	10,000	4,214	6,321	3,289,337	1,121,887	
42	7/1/24	3,216,239	3,216,239						3,216,239	1,067,510	
43	1/1/25	3,216,239	3,216,239	52,587	2,000	10,000	4,382	6,573	3,291,781	1,063,256	
44	7/1/25	3,216,239	3,216,239						3,216,239	1,010,970	
45	1/1/26	3,216,239	3,216,239	54,690	2,000	10,000	4,558	6,836	3,294,323	1,007,719	
46	7/1/26	3,216,239	3,216,239						3,216,239	957,425	
47	1/1/27	3,216,239	3,216,239	56,878	2,000	10,000	4,740	7,110	3,296,966	955,112	
48	7/1/27	3,216,239	3,216,239						3,216,239	906,715	
49	1/1/28	3,216,239	3,216,239	59,153	2,000	10,000	4,929	7,394	3,299,715	905,279	
50	7/1/28	3,216,239	3,216,239						3,216,239	858,692	
51	1/1/29	3,216,239	3,216,239	61,519	2,000	10,000	5,127	7,690	3,302,574	858,074	
52	7/1/29	3,216,239	3,216,239						3,216,239	813,212	
53	1/1/30	3,216,239	3,216,239	63,980	2,000	10,000	5,332	7,998	3,305,548	813,358	
54	7/1/30	3,216,239	3,216,239						3,216,239	770,140	
55	1/1/31	3,216,239	3,216,239	66,539	2,000	10,000	5,545	8,317	3,308,640	771,000	
56	7/1/31	3,216,239	3,216,239						3,216,239	729,350	
57	1/1/32	3,216,239	3,216,239	69,201	2,000	10,000	5,767	8,650	3,311,856	730,874	
58	7/1/32	3,216,239	3,216,239						3,216,239	690,721	
59	1/1/33	3,216,239	3,216,239	71,969	2,000	10,000	5,997	8,996	3,315,201	692,863	
60	7/1/33	3,216,239	3,216,239						3,216,239	654,137	
61	1/1/34	119,585,000	3,216,239	122,801,239	74,848	2,000	10,000	6,237	9,356	122,903,679	24,325,884
62		119,585,000	191,473,403	311,058,403	1,346,039	60,000	300,000	112,170	168,255	313,044,867	118,053,892

### Calculation of All-in Cost of Funds (2)

63	Par Value	119,585,000
64	- Underwriter's Discount	(742,408)
65	- Cost of Issuance	(788,700)
66	- Ongoing Expenses	
67	Proceeds Target Amount	118,053,892
68	All-in Cost of Funds	5.51657%

### Notes

(1) Inflation 104.000%

(2) Rate required to discount annual payments of principal, interest and ongoing costs back to net proceeds

# Schultz-Wautoma Lease-Purchase Transaction

- The Schultz-Wautoma transaction was priced on March 9, 2004.
- Final pricing numbers came in under expectations.

30 year Federal Agency Interest Rate	5.23%
Northwest Infrastructure Bond Interest Rate	5.37%
<u>Lease Transaction All-in Interest Rate*</u>	<u>5.52%</u>
Total Spread Above BPA's Borrowing Rate: (30-year Federal Agency Interest Rate)	0.29%

\* Lease transaction all-in interest rate includes:

- Audit fees
- Annual fees
- Trustee fees
- Lease maintenance and legal fees



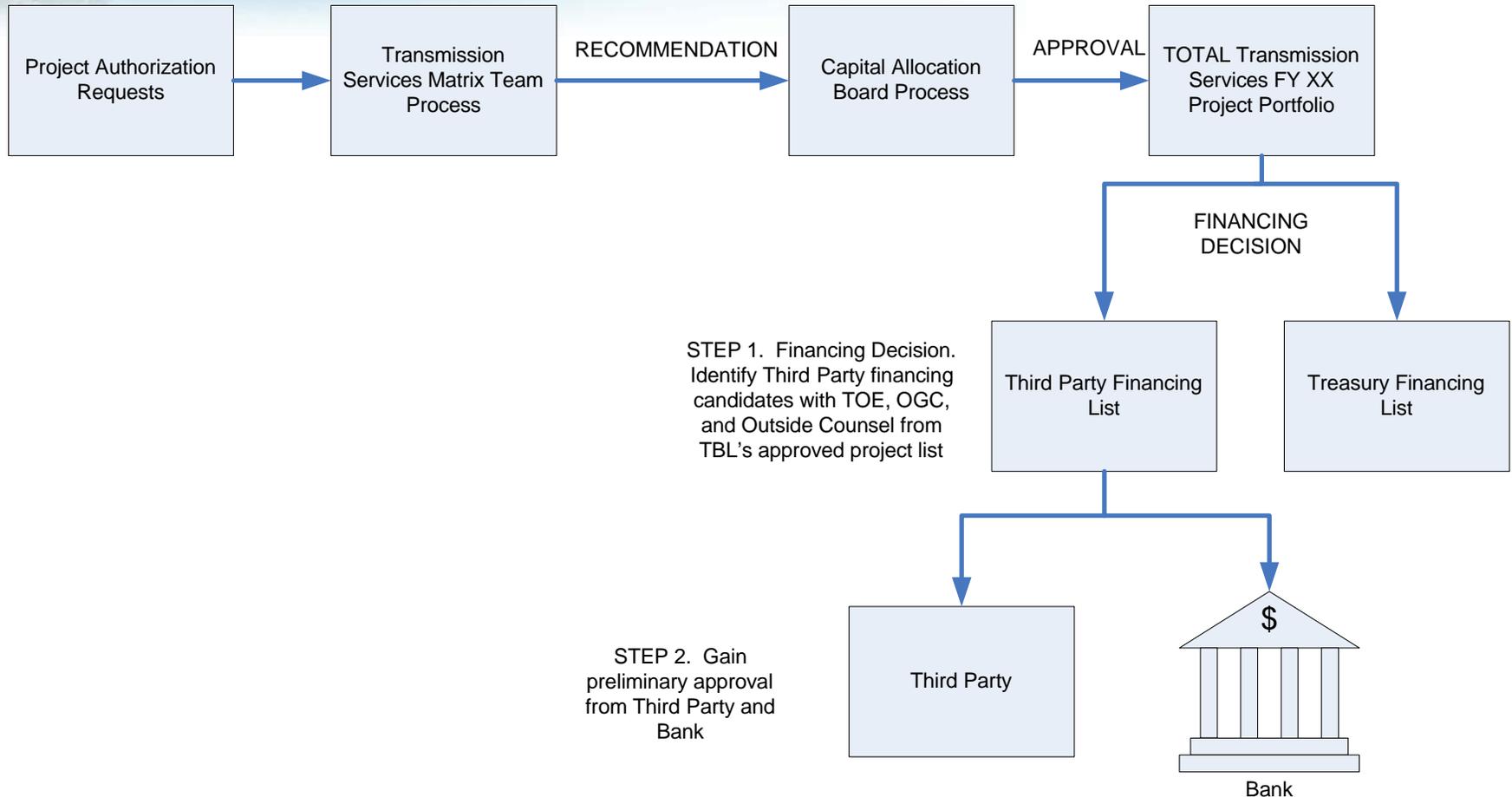
## ***Lease-Purchase Program and Master-Lease Model***



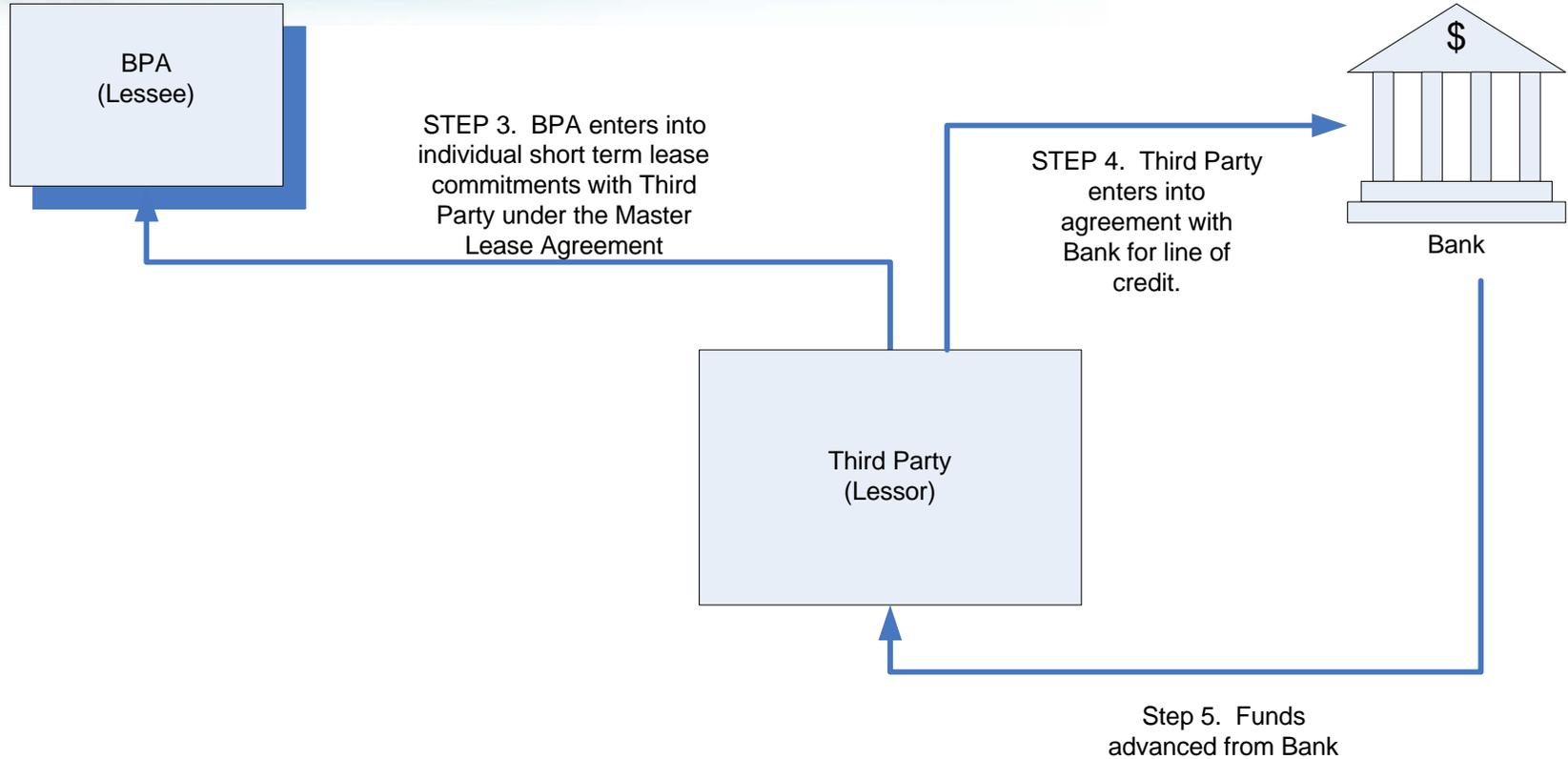
# Sample of Third-Party Candidates

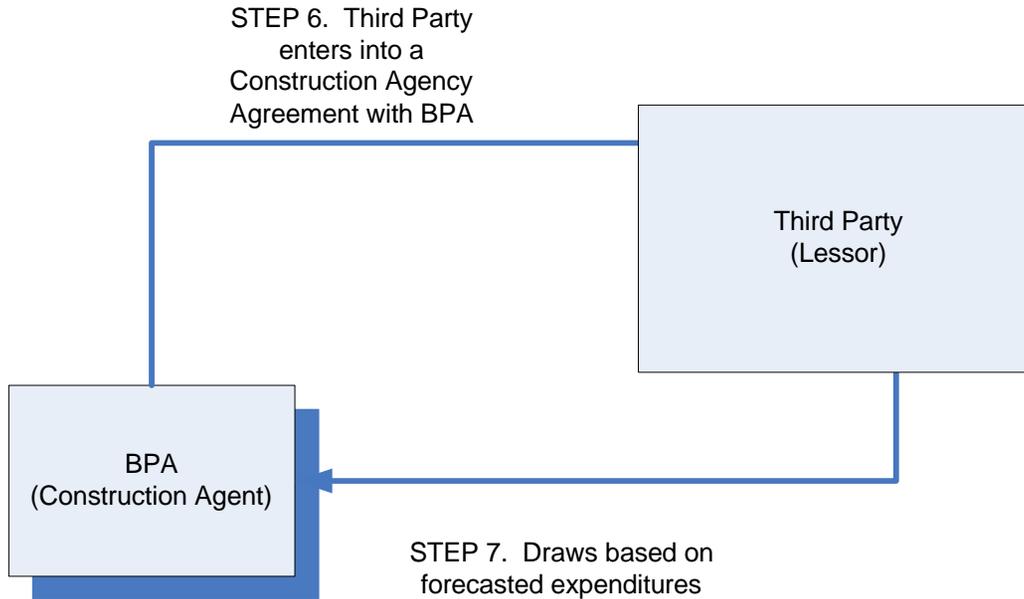
Project	Total Cost
ASHE SUBSTATION - DEVELOP BAY 8 FOR THE LOWER MONUMENTAL LINE	\$4,130,000
UNDERWOOD TAP TO BONNEVILLE-ALCOA 115 KV RELIABILITY UPGRADE - INSTALL CIRCUIT SWITCHER	\$442,400
FY 2007 BREAKER REPLACEMENTS DUE TO SHORT CIRCUIT CAPABILITY	\$1,853,600
PALISADES - GOSHEN UPGRADE FROM 115 KV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

# Project Identification

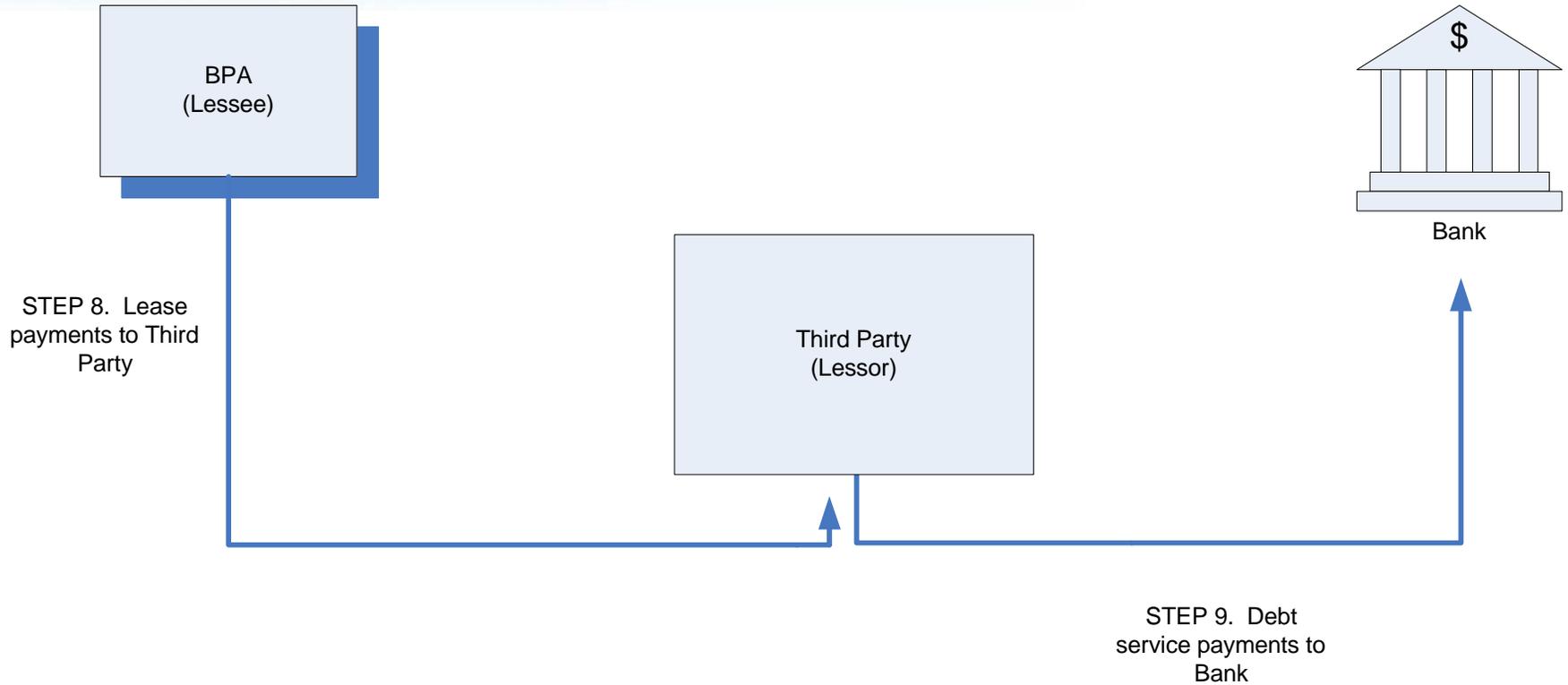


# Short-Term Lease Agreement

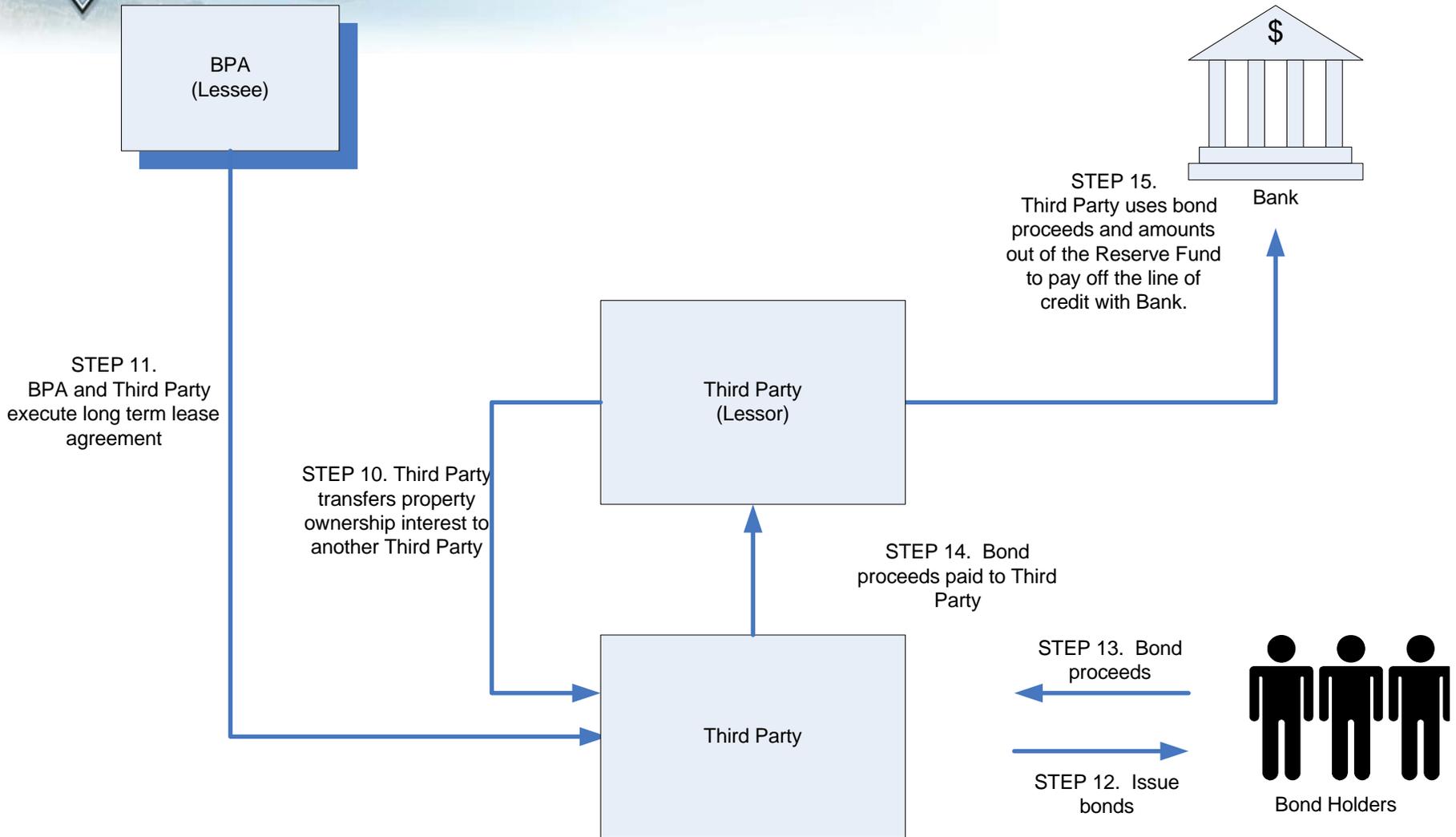




## Lease of Asset



# Take-Out Financing



## Final Structure



- 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

# Lease-Purchase All-in-Cost Estimates

**Agency FTE: 5.25**

**System Costs:** Undetermined at this time

**All-in Cost: 0.45-1.05%\***

	Low	Expected	High
Spread of Taxable Municipal to Agency	0.30%	0.45%	0.90%
Lease Costs	0.15%	0.15%	0.15%
<b>All in Cost</b>	<b>0.45%</b>	<b>0.60%</b>	<b>1.05%</b>

**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

## **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.***



- 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
  - Refer to "Third-Party Financing Proposals (August 3, 2004)" document for additional information.