BPA Prepayment Program
202

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Today’s Objective

- Provide a framework to participants to help them understand what risks they are taking and what risks they are not taking
  - Interest rate risk
  - Credit spread risk

- Provide assistance to participants in completing the Request for Offers (RFO) properly
Customers are encouraged to review the “Prepay Framework” laid out on June 27th and 28th live meetings while deciding if they would like to participate in this program.

1. Legal Authority: Do they have the legal authority to participate in the program?
2. Philosophy or Utility’s Policy: What is the position on BPA’s prepay program?
3. Business Case: From a macro prospective, does participation in the program have enough value to the utility?
4. Evaluation Model: What to consider when evaluating how much to bid on a block of power.
   a. Break even amount: What bid amount makes the credits equal the debt service?
   b. Incentive level: What rate of return or incentive does the utility want?
   c. Credit spread risk: Is there credit risk in the source of funding?

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In order to fill out the Request for Offer (RFO) the participant has already determined the price they are willing to purchase a block of credits for.

After determining the offer price for each block, the participant should understand the risks associated with the funding sources.

- Is there interest rate risk?
  - For example: Is the funding rate Treasury + a fixed spread

- Is there credit spread risk?
  - For example: Is the funding rate what ever the market will charge?

- Is there funding risk?
  - For example: Are you approved up to a set notional amount like $25 million.

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<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Bank Loan</th>
<th>Bond Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Risk</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>Credit Spread Risk</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Funding Risk</td>
<td>No</td>
<td>Maybe</td>
<td>No</td>
</tr>
</tbody>
</table>

A Bank loan that has no interest rate risk, is similar to funding the prepayment with cash.

- For example, purchasing a home. There is no difference if a mortgage broker offers a fixed rate at 3% for 30 days than if the home is purchased with cash. The monthly payments are known and locked in at the time of the offer.
Scenario Examples

- **Scenario A&B**: The participant is using cash reserves to fund the prepayment
  - The participants cost of funds is the opportunity cost of the forgone earnings
- **Scenario C&D**: The participant is using a bank loan to fund the prepayment
  - The bank has offered to fund the prepayment at the 10 year Treasury + 100 bps (1.00%)
  - The 10 year Treasury is 200 bps (2.00%)
  - The estimated participants cost of funds is 300 bps (3.00%)
- **Scenario E**: The participant will go to the market to fund the prepayment
  - The 10 year Treasury is 200 bps (2.00%)
  - The initial credit spread estimate is 50 bps (0.50%)
  - The estimated participants cost of funds is 250 bps (2.50%)

<table>
<thead>
<tr>
<th>Funding Decision</th>
<th>RFO Response</th>
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<tbody>
<tr>
<td>Funding Source</td>
<td>Interest Rate Risk</td>
</tr>
<tr>
<td>Scenario A</td>
<td>Cash/Reserves</td>
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<tr>
<td>Scenario B</td>
<td>Cash/Reserves</td>
</tr>
<tr>
<td>Scenario C</td>
<td>Bank Loan</td>
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<td>Scenario D</td>
<td>Bank Loan</td>
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<tr>
<td>Scenario E</td>
<td>Bond Issuance</td>
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* Interest rate risk is reflected in Appendix A, Part V
** Credit risk is reflected in Appendix A, Part IV
RFO Examples

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BPA has updated our external website

The RFO can be found at: http://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Power-Financing-Program.aspx

Prepays 202 (each meeting will cover the same material)
  - October 23rd, from 9:00am-12:00pm
  - November 6th, from 9:00am-12:00pm
  - November 13th, from 9:00am-12:00pm

Offers under the RFO are due between noon Pacific Time on Nov. 29, 2012, and noon Pacific Time on Nov. 30, 2012
Bonneville Power Administration

Timeline

Legend
- Webinar Prepay 101
- Webinar Prepay 202

- 11/15: Close out Date
- 11/16 - 11/29: Quiet Period (No com. between BPA & Customers)
- 11/29 - 12/5: Submittal Period
- 12/5 - 3/19: Customer Lock In Date
- 3/29: Funding Date
- 4/1: Credits Begin Accruing
- 5/1: Credits On May Power Bills

Dates:
- 8/14: RFO Issued
- 9/1: Webinars
- 9/14: 10/1: 11/1: 12/1: 1/1: 2/1: 3/1: 4/1: 5/1:
- 8/14/12: 9/20 9/26 10/4 10/23 11/6 11/13 12/5/12
- 11/13: Award Date
- 12/5: Funding Date
- 3/19: Credits On May Power Bills
- 5/1: Credits On May Power Bills