Debt Optimization, Borrowing Authority, Capital Funding Strategy, and Debt Service Reassignment

February 13, 2003

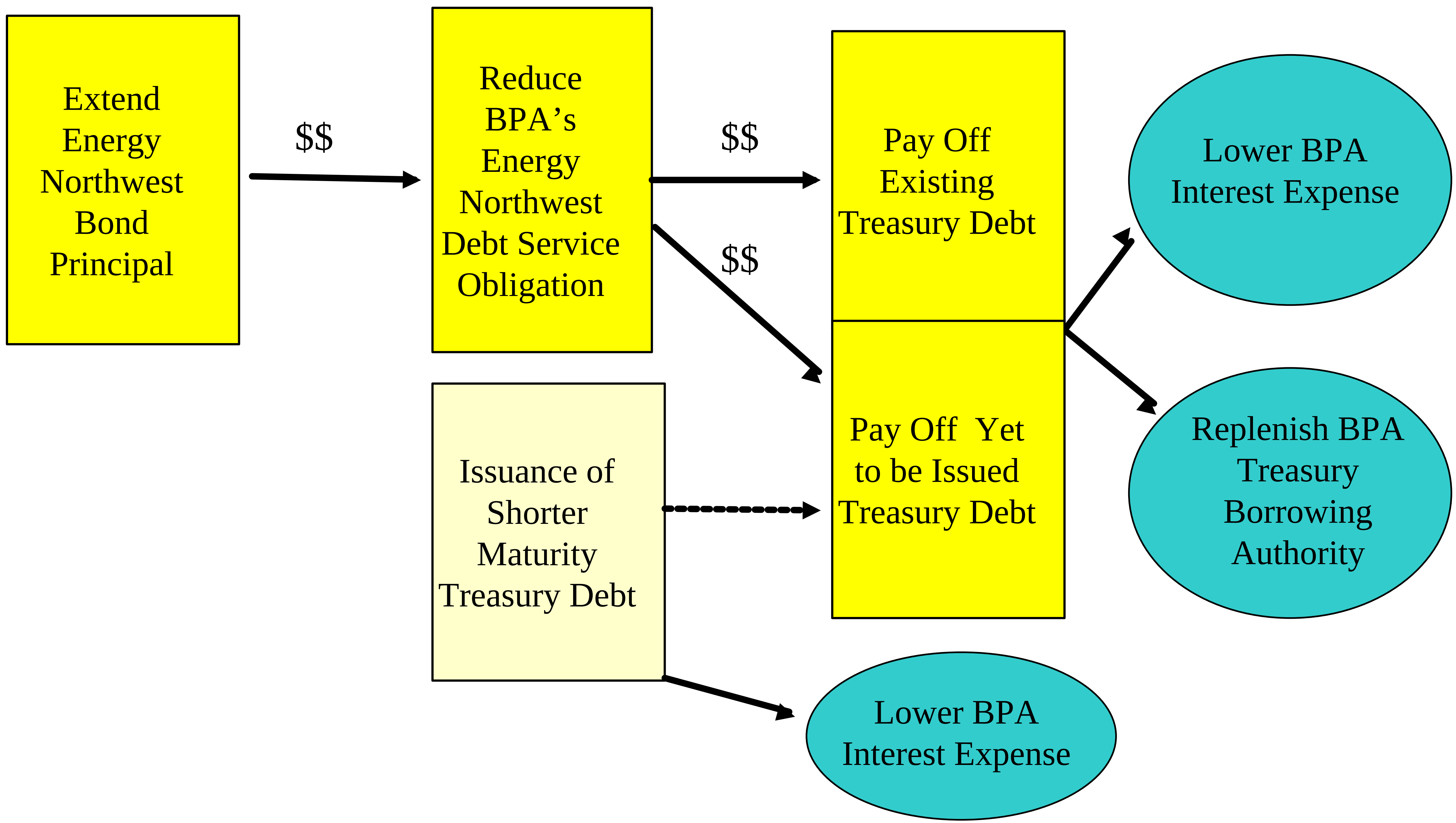
Today's Discussion

- To review the objectives of the Debt Restructuring (Optimization) Program and its key aspects.
- To illustrate the Treasury borrowing authority problem and how it is mitigated through the Debt Restructuring Program.
- To provide information on BPA's capital infrastructure program, its affordability, and its funding.

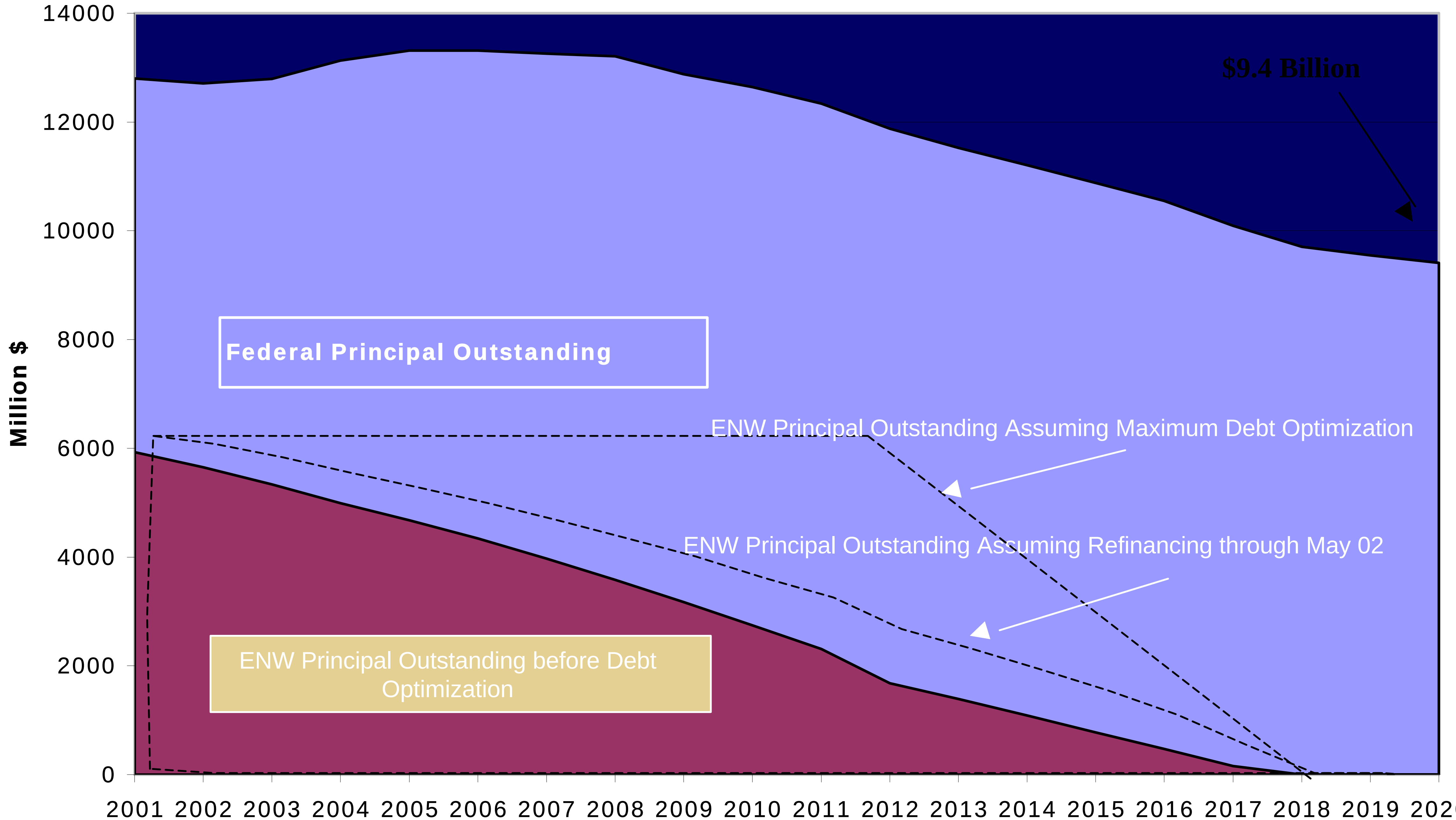
The Essence of the Program

- The Debt Restructuring Program resulted from the examination of Federal and non-Federal debt as a single portfolio to be optimized in terms of cost and access to capital.
- The heart of the program is to:
  1. Extend the Energy Northwest (ENW) debt to the 2013-2018 period, thereby reducing net-billing and increasing cash flow to the Bonneville Fund.
  2. Pay down Treasury debt in advance by the same amount that ENW principal is extended.
  3. Issue short maturity Treasury bonds for new capital to allow advance amortization and avoid costly call premiums.
- The results of the program will be to:
  1. Replenish Treasury borrowing authority by approximately $3 billion between 2001-2012.
  2. Produce a changed debt portfolio that has less high cost Treasury debt and more lower cost ENW debt, with no significant change in total debt outstanding.
  3. Reduce overall costs of BPA's debt portfolio to Regional ratepayers.

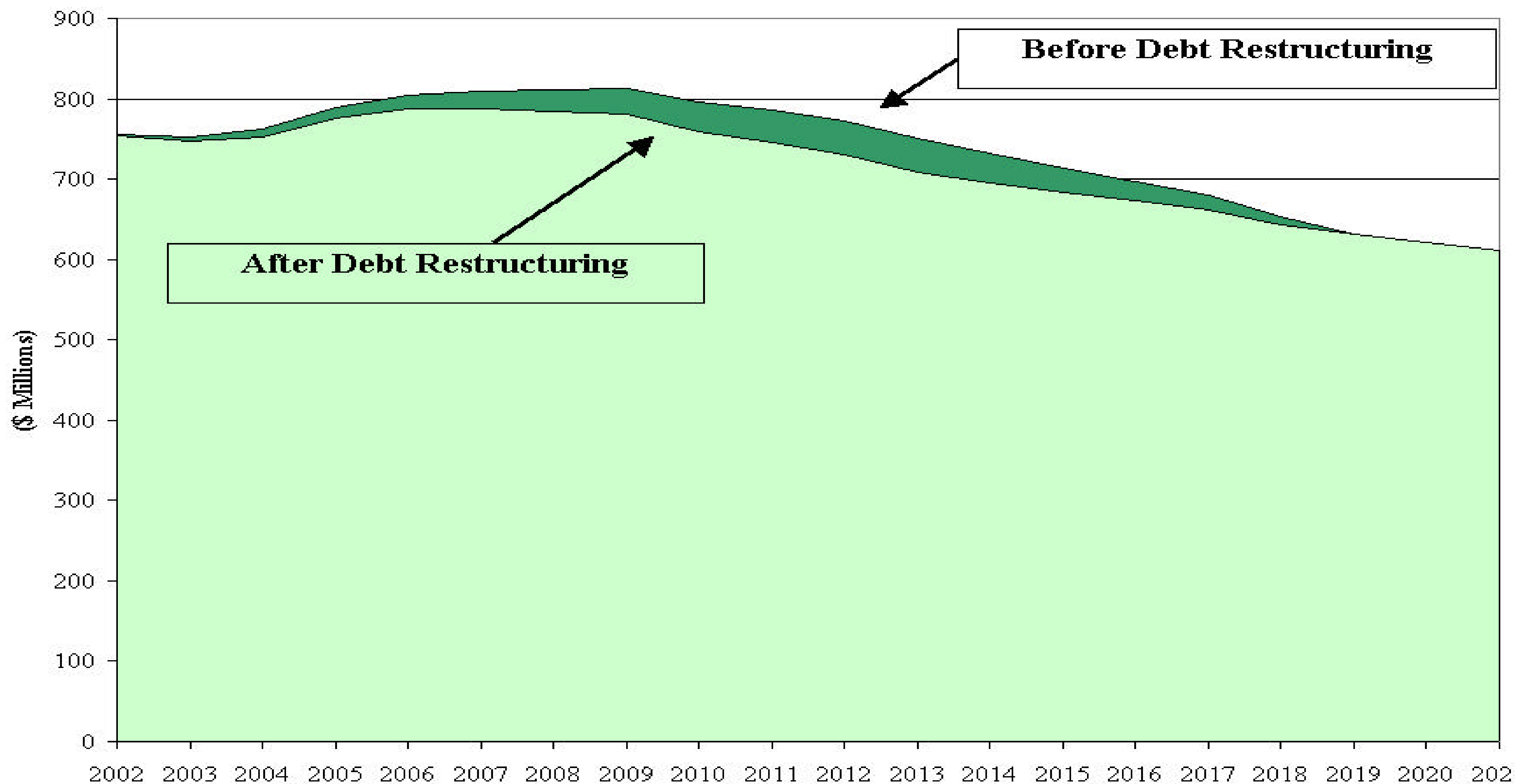
Mechanics of Debt Restructuring – Cash Flow Savings



Impact on BPA Debt Portfolio



Estimated BPA Total Annual Interest Expense Savings Due to Debt Restructuring



Debt Restructuring Results To Date

(Dollars in Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
2001A		51	31						14	14	36	38	185
2001B	97												97
2002A		32	24	43	40	60	45	51	51	24	34		402
2002B		180	22	12			12	13	14			15	266
Total	97	262	76	55	40	60	57	63	78	38	70	53	950
Potential	97	262	315	346	314	337	369	393	407	254	70	53	3,217

Amounts shown in "Potential" row are based upon current capital spending estimates.

Summary of the Debt Restructuring Program

- Approximately $3 billion of Energy Northwest debt (Columbia,WNP-1/3) is extended into the 2013-2018 period, but **a like amount of Federal principal** is paid earlier than planned. Therefore, there is no change in total BPA debt outstanding at any point in time.

- Although a larger amount of Energy Northwest debt will be outstanding in the 2013-2018 period, a **smaller amount** of Federal debt will be outstanding.

- Higher cost Federal debt will be **paid off earlier** than lower cost Energy Northwest debt, resulting in lower average annual interest costs of about $20 million per year.

- The outstanding amount of total Federal and non-Federal debt in BPA's debt portfolio will not change, it is just **the composition of this debt** that will change. There is **no balloon payment** for the ratepayers.

- The external financial community (rating agencies, bond insurers, and investors) **look at BPA's total debt and total debt service costs** when evaluating Bonneville's financial health and credit worthiness for the BPA-backed ENW bonds.

Debt Restructuring Makes Financial Sense Under All Circumstances

- Most successful businesses seek to minimize interest expense and optimize the mix of debt instruments within their total portfolio. BPA is no different in this regard.

- By extending the lower cost Energy Northwest debt and accelerating the repayment of higher cost Federal debt, BPA and the Region reap considerable interest savings, averaging approximately $20 million per year.

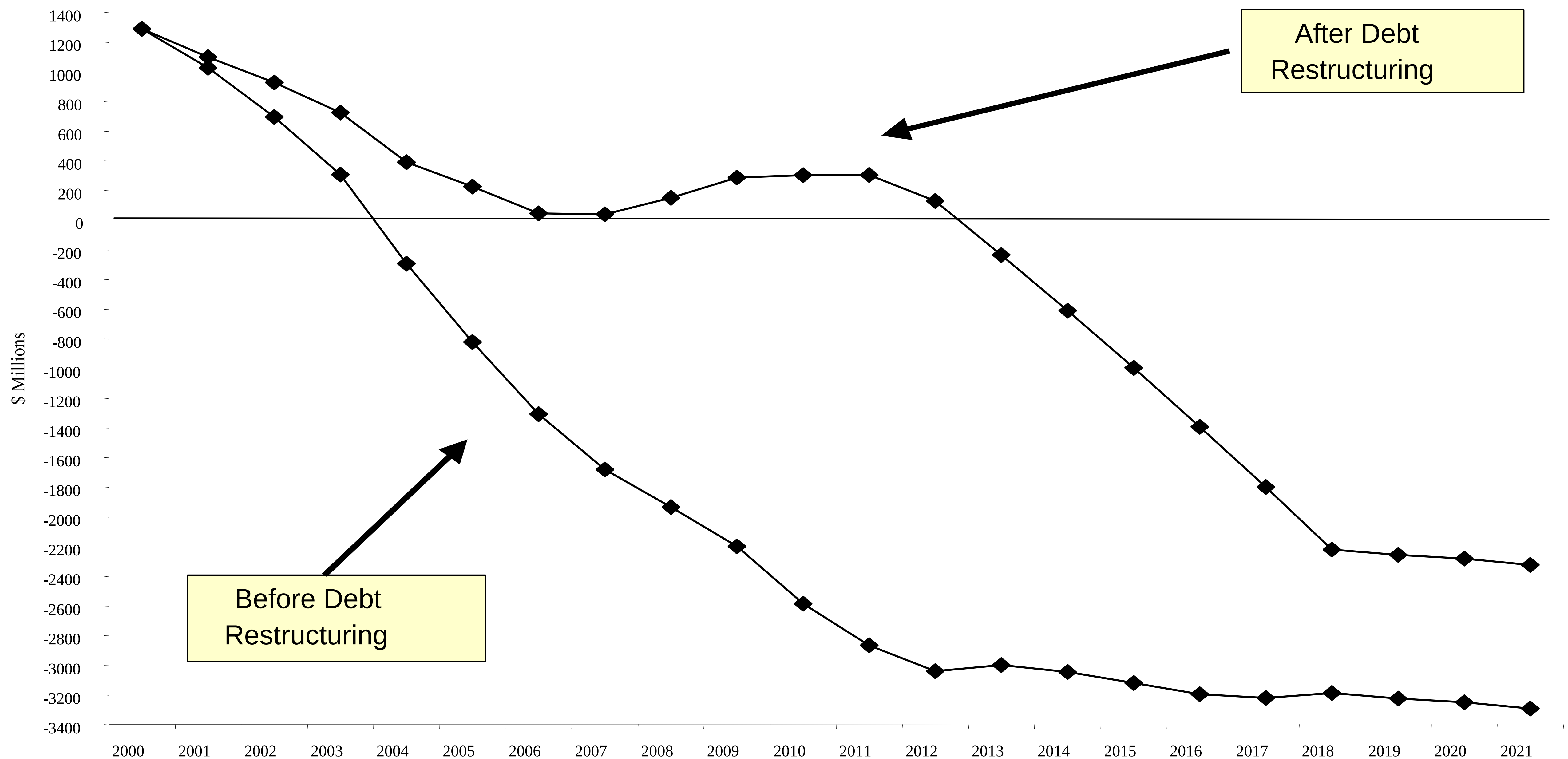
- The entire BPA debt portfolio, including the ENW debt, is repaid entirely from BPA ratepayer revenues, and BPA constantly seeks all possible opportunities to reduce debt service costs and to make its total debt portfolio the most efficient.

- Debt Restructuring is a prudent debt management & sound business practice.

BPA Borrowing Authority Basics

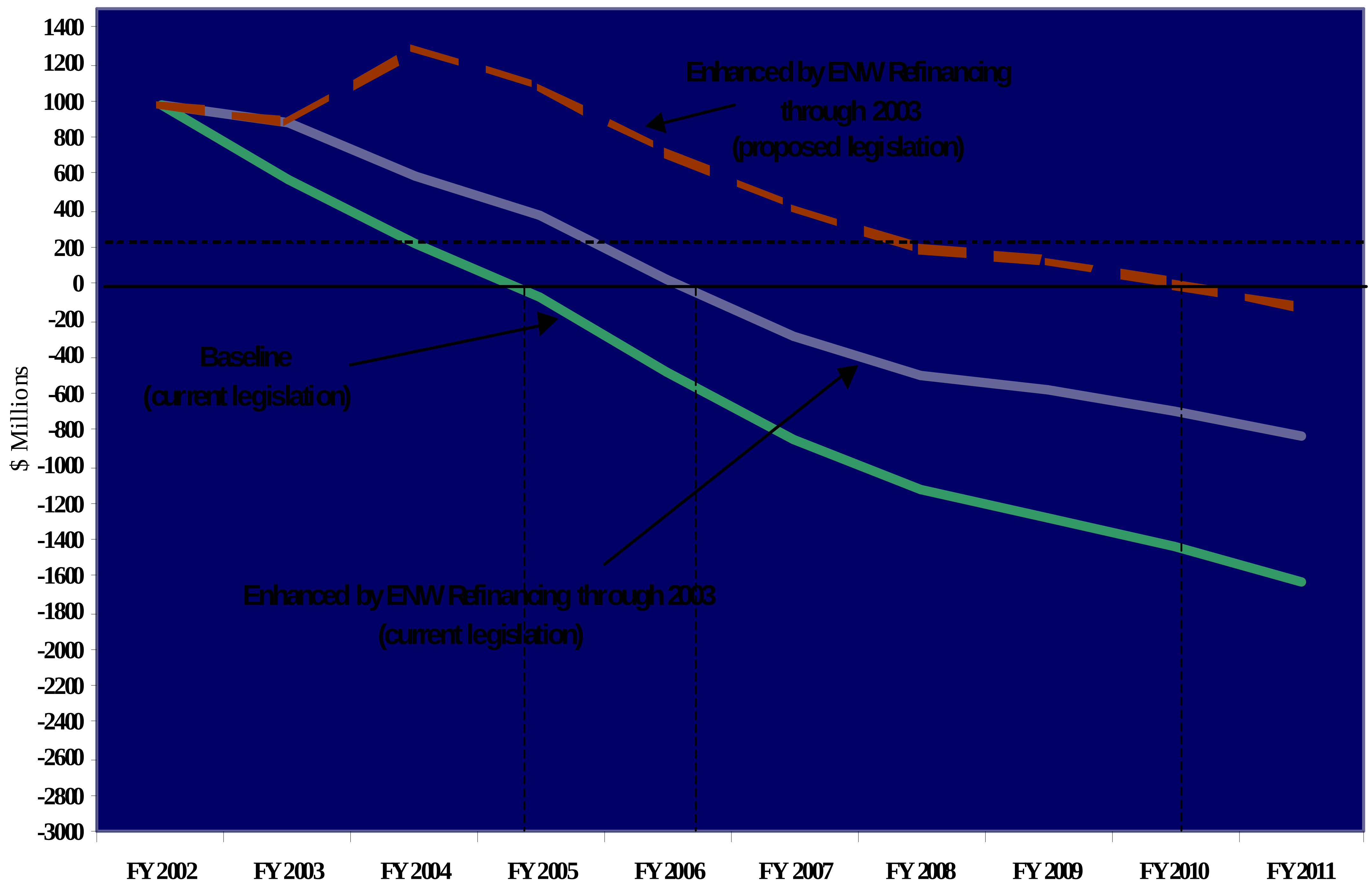
- The US Treasury is BPA's sole source of direct borrowing and Congress has authorized BPA a maximum of $3.75 billion in borrowing authority.
- Congress enacted legislation which established BPA's borrowing authority limit of $3.75 billion overall:
  - Cap 1: $1.25 billion made available in the 1974 Transmission Act
    $1.25 billion made available in 1983 amendment of Transmission Act
  - Cap 2: $1.25 billion authorized in the 1980 Northwest Power Act and made available in 1982
- Cap 1 is available to finance the transmission system and to implement the Administrator's authority under the Northwest Power Act.
- Cap 2 is reserved for conservation and renewable resources.
- Use of BPA's borrowing authority works very similar to a revolving line of credit.
  - When BPA borrows from the Treasury, the new Treasury bond is added to the already outstanding principal due on previous Treasury bonds, thereby depleting borrowing authority.
  - When BPA amortizes a Treasury bond, such amount is deducted from the outstanding total Treasury debt, thereby restoring borrowing authority.
  - At no time can the outstanding principal for all Treasury bonds exceed $3.75 billion.
- Indirect methods of borrowing, e.g., BPA-backed Energy Northwest bonds, are also available to Bonneville. These methods do not count against borrowing authority.
- Extending ENW debt allows BPA to pay off Treasury bonds early and increase available borrowing authority in the near term. This reduces the need to rely on alternative higher cost sources of capital.

Effect of Debt Restructuring on Remaining Borrowing Authority



Projected capital spending for FY02-12 consistent with FY03 budget submittal and projected by staff for FY13-21(September 2001).

BPA Remaining Borrowing Authority (Under Current and Proposed Legislation)



Summary of Treasury Borrowing Authority

- The Debt Restructuring Program generates about **$3 billion of borrowing authority** between now and 2012.
- This program allows BPA to **move forward** with its infrastructure program **obtaining interest rates that are cheaper than alternative rates**.
- Utilizing debt restructuring **eliminates the risk of deferring or eliminating key projects that the Region considers important** for system reliability and integrating new generation if other sources of capital cannot be found.

Capital Funding Strategy

BONNEVILLE CAPITAL PROGRAM (Including Infrastructure)

- **Treasury Borrowing Authority**
- **3rd Party Participation**
- **Debt Restructuring**

Capital Funding Plan

- **3rd Party Financing**
- **Federal Borrowing & Amortization**
- **Debt Service Reassignment**

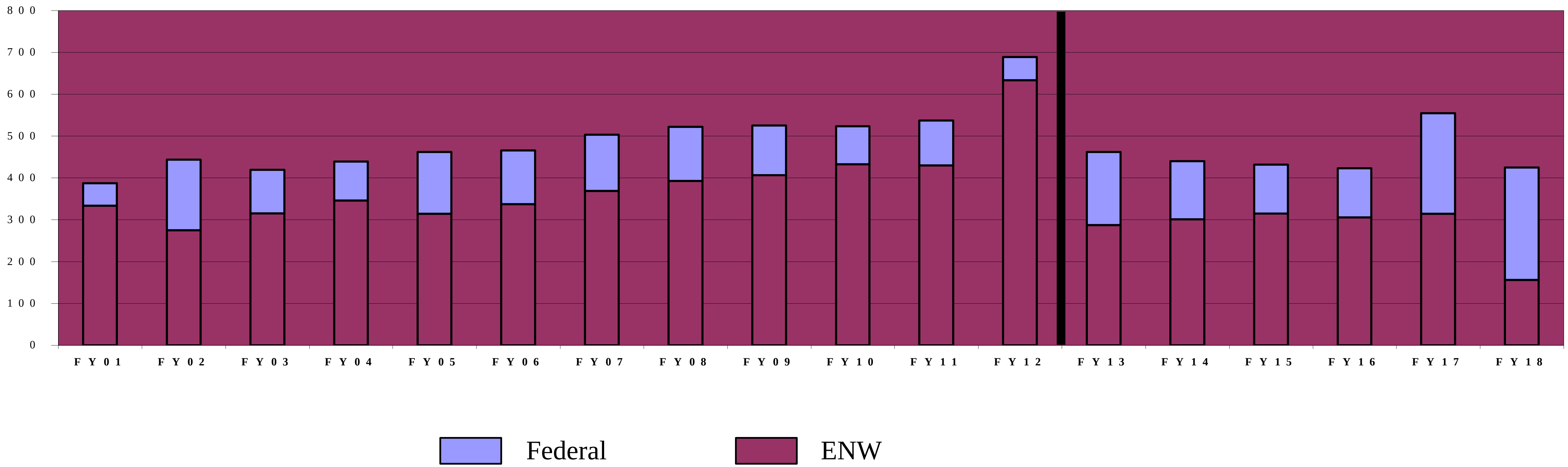
What is Debt Service Reassignment?

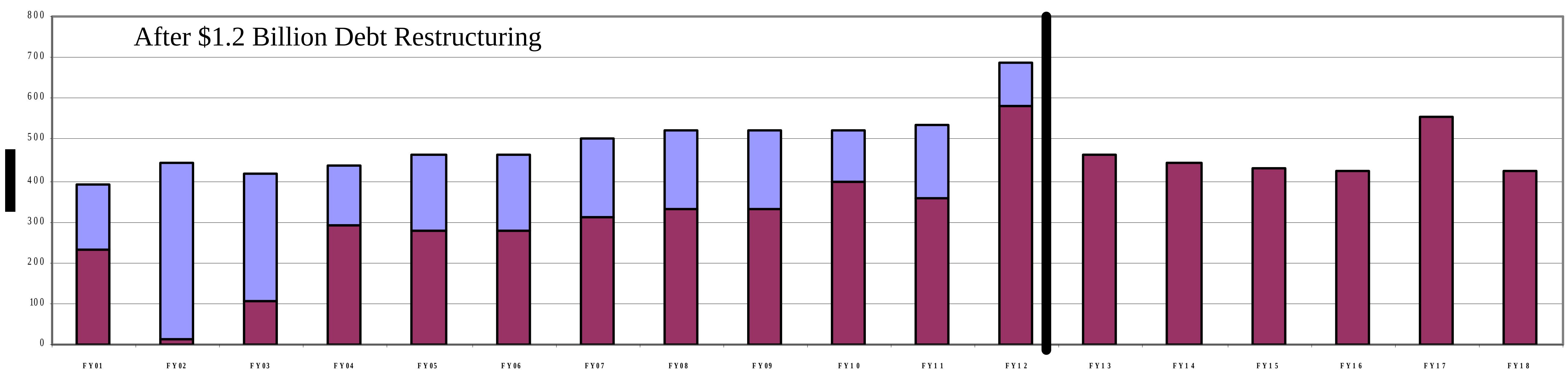
- Debt Service Reassignment is an inter-functional financial tool that allows the Transmission Business Line to realize the benefits of the Debt Restructuring Program.
- Debt Service Reassignment allows for the use of funds without impacting Power Business Line customers.
- Debt Service Reassignment is solely a ratemaking and accounting mechanism with no impact on external BPA debt instruments and their security, including no impact on the probability of making payments to the Treasury, vendors, or bondholders.

Debt Service Reassignment Rationale

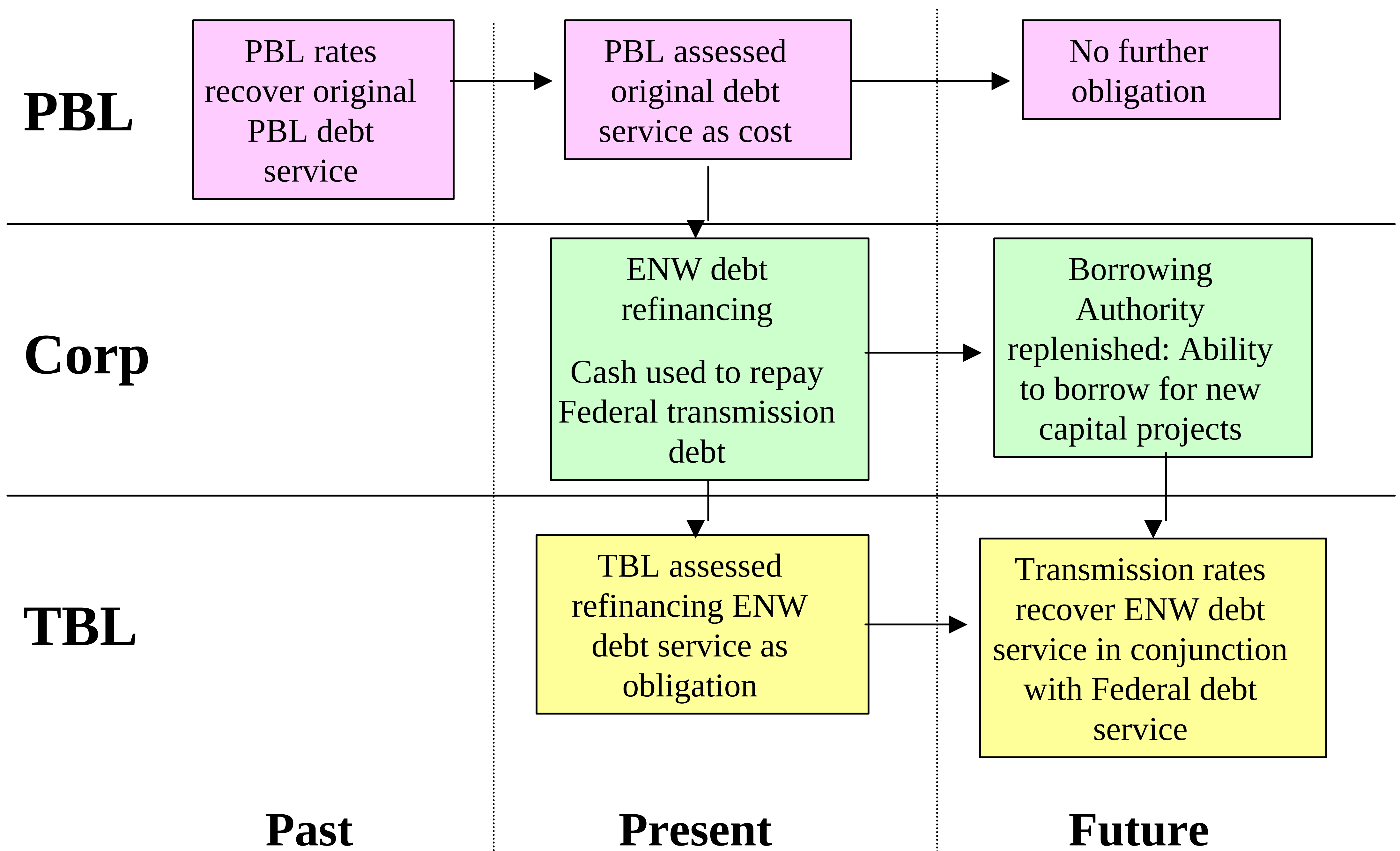
- To date the Debt Restructuring Program has only benefited the Power Business Line, yet the program has the potential for approximately $3 billion in cash flow opportunities.
- All ENW costs are currently recovered from power rates and all investment in ENW is part of the Power Business Line.
- Twenty year Power Business Line repayment studies show that only a limited amount of ENW debt (approximately $1.2 billion) can be extended into fiscal years 2013-2018 without raising power rates.
- Debt Service Reassignment benefits transmission with the remaining cash flows and it ensures that transmission ratepayers are responsible for full costs associated with transmission assets, including all financing costs.
- This transaction is consistent with the fact that all debt, Federal and non-Federal, is secured by BPA as a whole and not one business line.

Generation Amortization





Debt Service Reassignment Concept



Debt Service Reassignment Accounting and Implications

PBL:

- The intent is to create a mechanism that avoids effects that are inconsistent with rate case assumptions and methodologies.
- In business line accounting, PBL will be assessed the original ENW debt service as its annual cost, satisfying its obligation to recover those costs in its rates. PBL has no further obligation to recover refinanced ENW debt. No change is required in the format of the PBL income statement
- This treatment is consistent with FB CRAC analysis, which uses original rate case ENW debt service in calculation of annual net revenues.
- The Slice True-Up reflects the actual cost assigned to PBL and is indifferent to the transaction (same ENW debt service as in rate case).

TBL:

- In business line accounting, TBL will be assessed debt service based on the new extended ENW bonds as a component of its annual cost.

Principles Used in Development of the Debt Service Reassignment Transaction

1. Between business line transactions arising from the restructuring of Energy Northwest debt will be made in such a way that neither business line nor its customers will be any worse off compared to continued access to Treasury borrowing authority.
2. Within the constraints of the repayment methodology, the transactions will make use of low cost capital without permanently foregoing any debt restructuring opportunities.
3. The transactions will be solely a ratemaking and accounting mechanism with no impact on external BPA debt instruments and their security, including no impact on the probability of making payments to the Treasury and vendors.
4. The transactions will be defensible in rate case proceedings, and will not jeopardize the tax-exempt status of the refinancing bonds.
5. The transactions will adhere to the Federal Energy Regulatory Commission's separate accounting requirements.