

# 2004 Programs In Review: Technical Workshop

Debt Optimization Program and Debt Service Reassignment  
Management of Long-Term Liabilities  
Third-Party Financing

August 5, 2004

# Goals for Today's Discussion

- Provide an overview of the debt optimization program with particular emphasis on debt service reassignment
- Discuss the results of BPA's management of its long-term liabilities on a single portfolio basis
- Provide information relative to the recent Schultz-Wautoma third-party financing transaction
- Answer questions relevant to the above topics

# Debt Optimization Program and Debt Service Reassignment

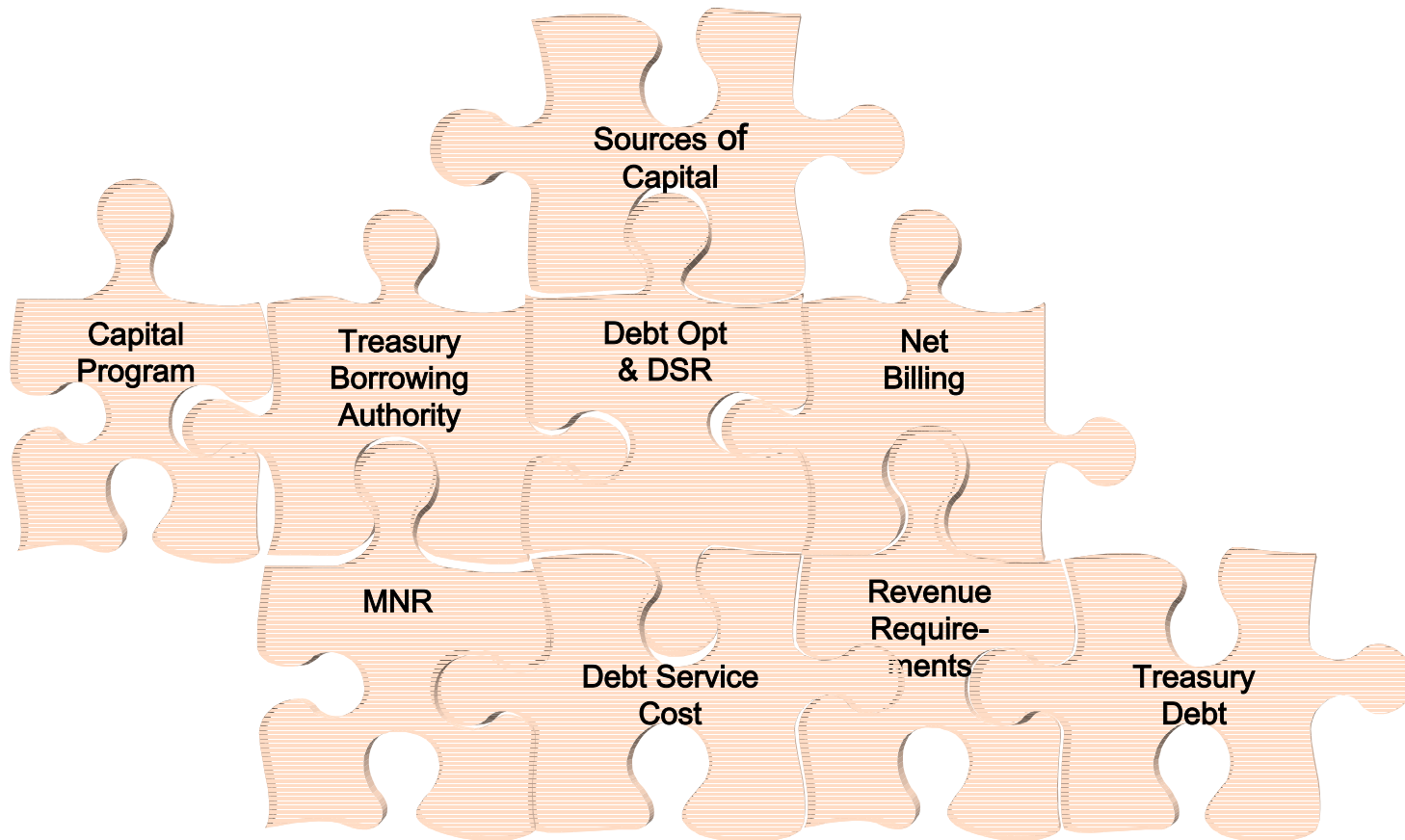
Presented by Don Carbonari and Anita Mertsching

# Background

- In FY 1999, BPA determined that, within a few years, it would exhaust its Treasury borrowing by funding the capital programs supported by the region.
- BPA decided it was prudent to consider alternative methods of financing its capital-intensive business.
- Rates are set to recover costs, including the costs of future capital programs.
- The **debt optimization program** was designed as the least cost alternative for maintaining continued access to Treasury borrowing.
- The debt optimization program relies on Energy Northwest's annual participation and approval.
- In FY 2002, BPA expanded the program through **debt service reassignment** to include the transmission business line.
- Debt service reassignment results in the cost of the new Energy Northwest debt being assigned to transmission, not power. In exchange for this reassignment, additional Treasury payments are made, which then results in greater Treasury borrowing authority being available to transmission.

# Overview

- Debt optimization is linked to many familiar BPA areas.



# BPA's Continuing Capital Program Translates to an Ongoing Need for Low Cost Financing

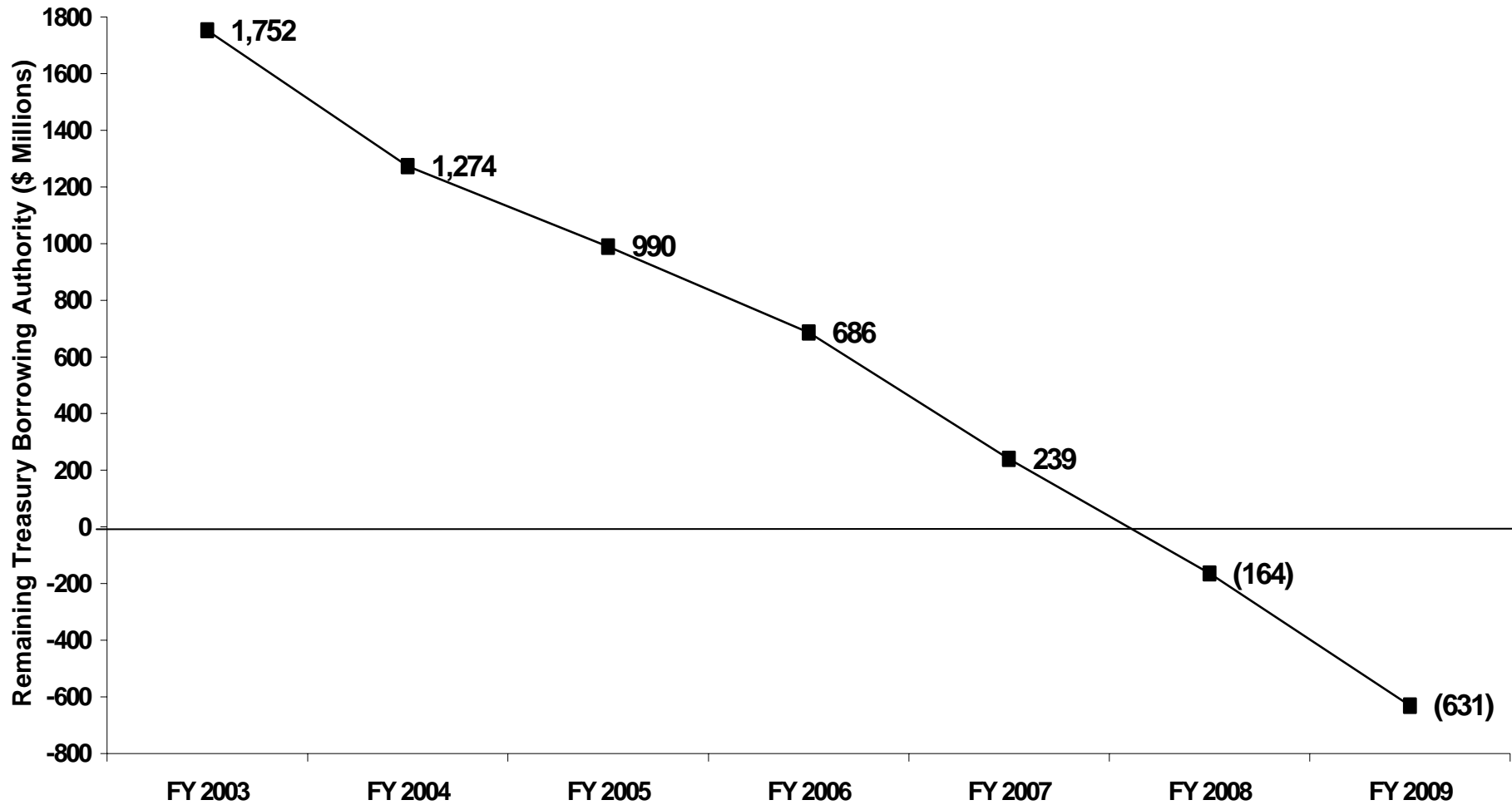
## CAPITAL INVESTMENTS

(in millions of dollars)

Fiscal Year	Actuals				Estimates					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Conservation & Energy Efficiency	0	0	29	25	30	36	32	32	32	32
Transmission Business Line	116	183	259	319	386	269	222	331	409	386
Associated Project Cost - Capital	33	65	73	99	111	116	119	133	145	137
Fish & Wildlife	14	17	6	12	36	36	36	36	36	36
Capital Equipment	26	17	22	19	31	27	22	23	23	23
Capitalized Bond Premiums	4	0	0	0	3	3	3	3	3	3
<b>TOTAL CAPITAL</b>	<b>193</b>	<b>282</b>	<b>389</b>	<b>473</b>	<b>598</b>	<b>487</b>	<b>435</b>	<b>558</b>	<b>648</b>	<b>617</b>

*FYs 2000-2002 data is un-audited and has been made publicly available by BPA, consistent with BPA Congressional Budget Submissions for FYs 2002 (released Feb. 2001), 2003 (released Feb. 2002) and 2004 (released Feb. 2003), respectively. FY 2003 data is audited and FYs 2004-2009 data includes estimates based on information made publicly available by BPA in Feb. 2004, consistent with the FY 2005 Congressional Budget Submission.*

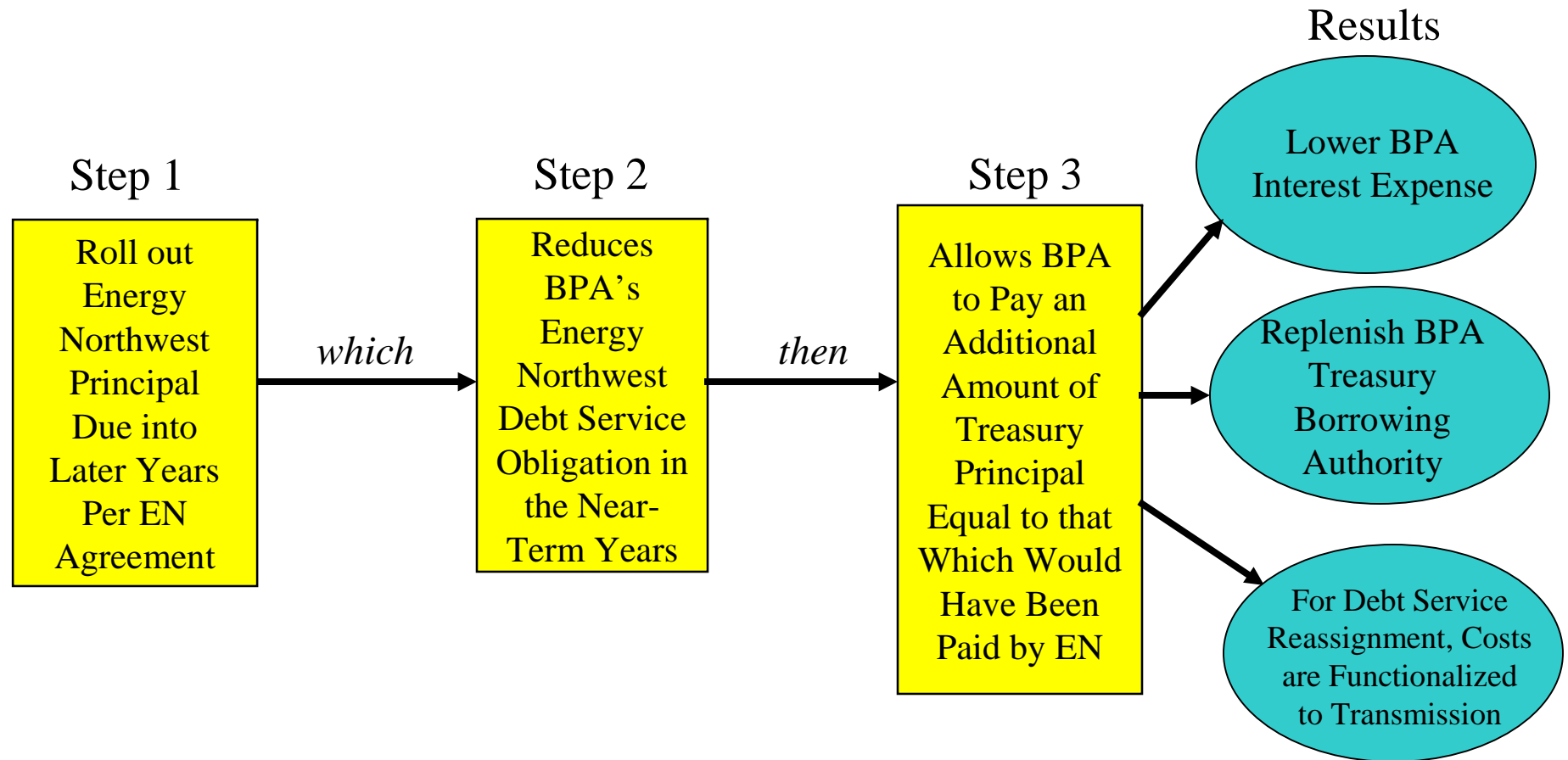
# BPA Treasury Borrowing is a Reliable, but Scarce Method to Finance the Capital Program



*This information has been made publicly available by BPA on August 3, 2004, and is consistent with the FY 2005 Congressional Budget Submission released in February 2004.*

# The Mechanics of Debt Optimization Simplified

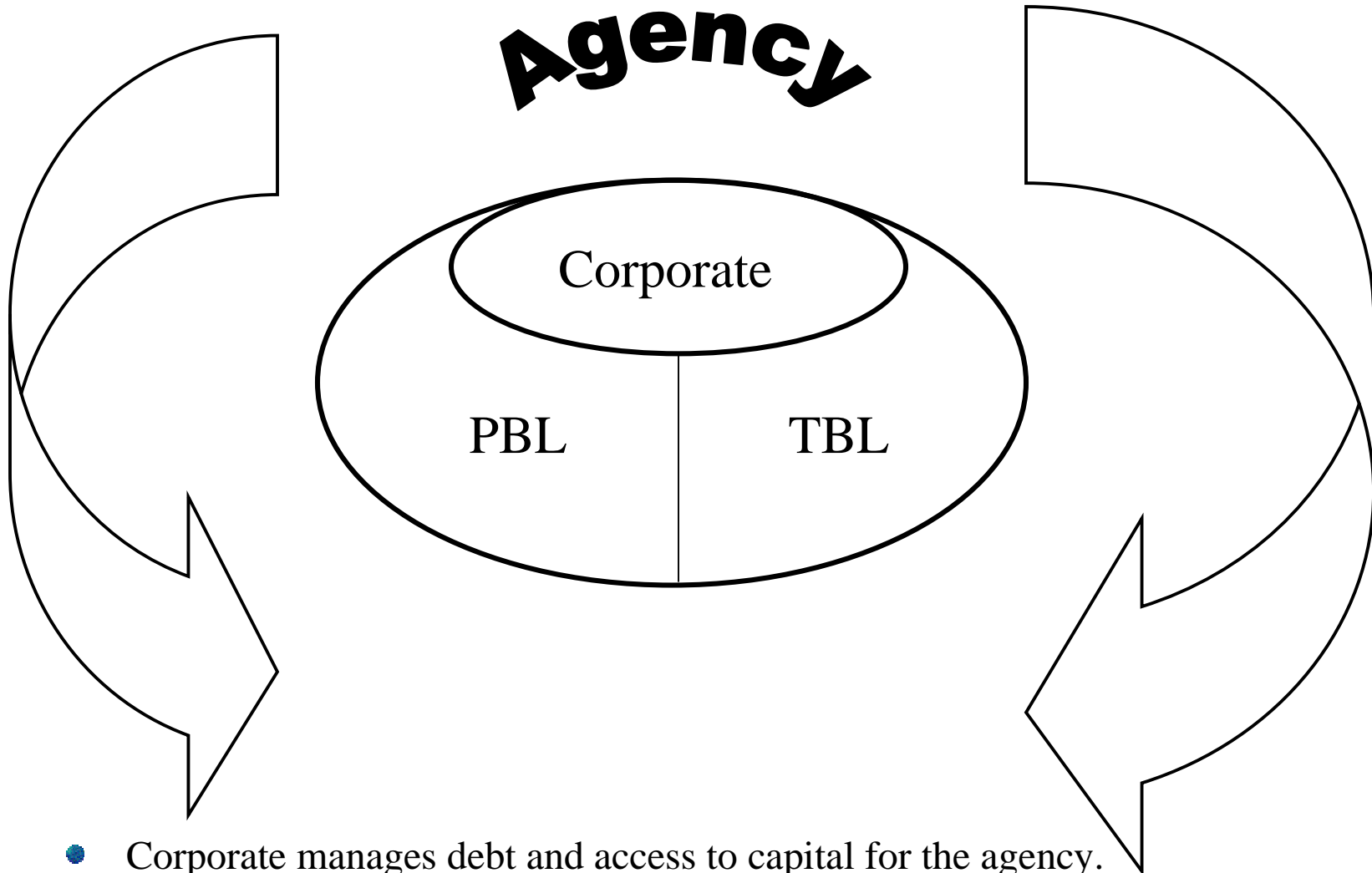
## Part 1 of 3: A Skeletal View





# The Mechanics of Debt Optimization Simplified

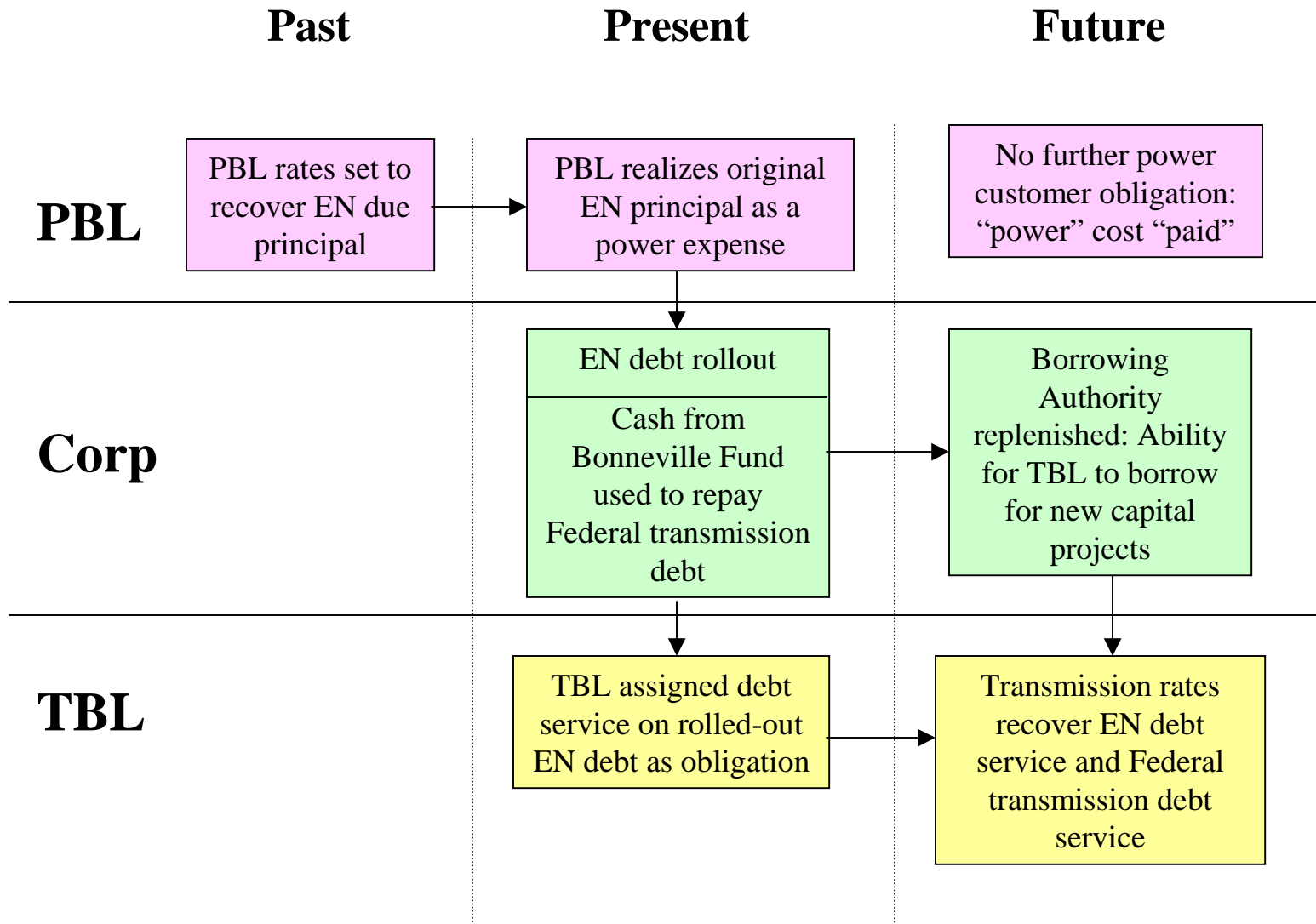
*Part 2 of 3: Debt Service Reassignment - Why this approach?*



- Corporate manages debt and access to capital for the agency.
- Corporate takes prudent actions to ensure adequate access to capital so that both business lines can fulfill Bonneville's statutory obligations.

# The Mechanics of Debt Optimization Simplified

## Part 3 of 3: Debt Service Reassignment Design



# Summary

- Debt optimization is the least cost alternative to maintaining continued access to Treasury borrowing.
- Energy Northwest's approval of the program is contingent upon BPA's commitment to prepay Federal debt.
- Debt optimization is linked to multiple activities throughout financial operations.
- BPA's capital intensive business is projected to deplete its access to Treasury borrowing authority by FY 2008 without using debt optimization and other financing mechanisms.
- The debt service reassignment costs are functionalized to Transmission, making TBL a co-beneficiary of the debt optimization program.
- BPA's overall interest expense is lower due to this program.

# Management of Long-Term Liabilities

Presented by Nadine Coseo

# Summary of Results Through Single Portfolio Management

- Between FY00 and FY03, the weighted average interest rate (WAI) on total outstanding liabilities decreased from 6.6% to 5.7%, a 90 basis point (.9%) reduction.
- Even though the amount of long-term liabilities has been relatively constant from FY00 to FY03, just under \$13 billion, about one third of the portfolio has turned over.
- A number of factors, including Debt Optimization, have contributed to these results.

# Single Portfolio Management has Created Significant Results

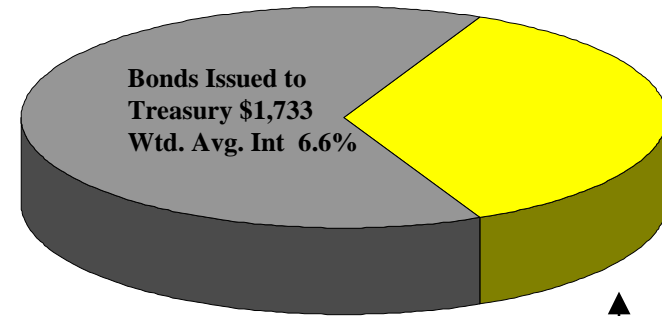
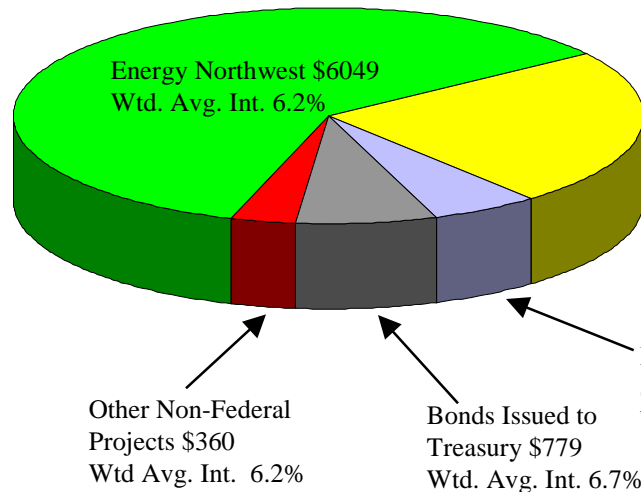
## Generation

Part 1 of 2

## Transmission

**FY 2000** <sup>1/</sup>

(\$ millions)



	<u>Power Marketing</u>		<u>Transmission</u>		<u>Total</u>	
	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>
<b>Total Appropriations</b> <sup>2/</sup>	\$3,091	7.1	\$977	7.2	\$4,068	7.1
<b>Total Bonds Issued to Treasury</b>	779	6.7	1,733	6.6	2,512	6.7
<b>Total Federal Liabilities</b>	3,870	7.0	2,710	6.8	6,580	6.9
<b>BPA Liabilities to Non Federal Parties</b>	6,409	6.2	0	0	6,409	6.2
<b>Total FCRPS Liabilities</b>	\$10,279	6.5	\$2,710	6.8	\$12,989	6.6

1/ Irrigation assistance liability not included (\$770 million at zero percent interest).  
 2/ Appropriation amounts exclude appropriations for work still in progress.

This information has been made publicly available by BPA on August 3, 2004 and is consistent with BPA's and Energy Northwest's FY2000 annual reports.

# Single Portfolio Management has Created Significant Results

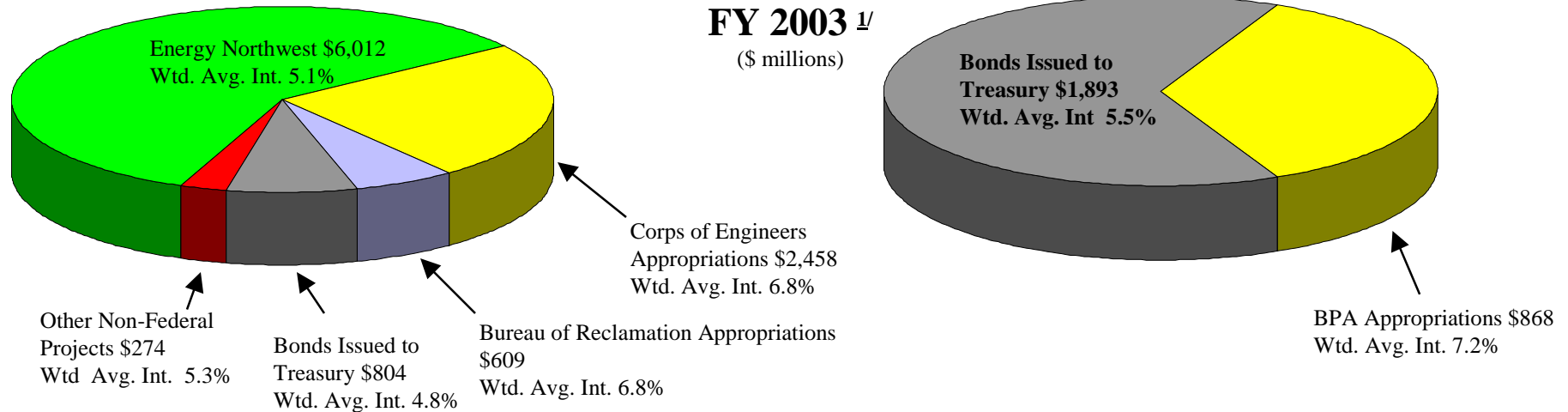
## Generation

Part 2 of 2

## Transmission

**FY 2003** <sup>1/</sup>

(\$ millions)



	<u>Power Marketing</u>		<u>Transmission</u>		<u>Total</u>	
	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>	<b>Liabilities Outstanding (\$millions)</b>	<b>WAI Rate</b>
<b>Total Appropriations</b> <sup>2/</sup>	\$3,066	7.0	\$868	7.2	\$3,934	7.0
<b>Total Bonds Issued to Treasury</b>	804	4.8	1,893	5.5	2,697	5.4
<b>Total Federal Liabilities</b>	3,870	6.5	2,761	6.0	6,631	6.3
<b>BPA Liabilities to Non Federal Parties</b>	6,286	5.1	0	0	6,286	5.1
<b>Total FCRPS Liabilities</b>	\$10,156	5.6	\$2,761	6.0	\$12,917	5.7

1/ Irrigation assistance liability not included (\$685 million at zero percent interest).  
 2/ Appropriation amounts exclude appropriations for work still in progress. 2003 CWIP was \$674,432,593.

This information has been made publicly available by BPA on August 3, 2004 and is consistent with BPA's and Energy Northwest's FY2003 annual reports.

# Third-Party Financing

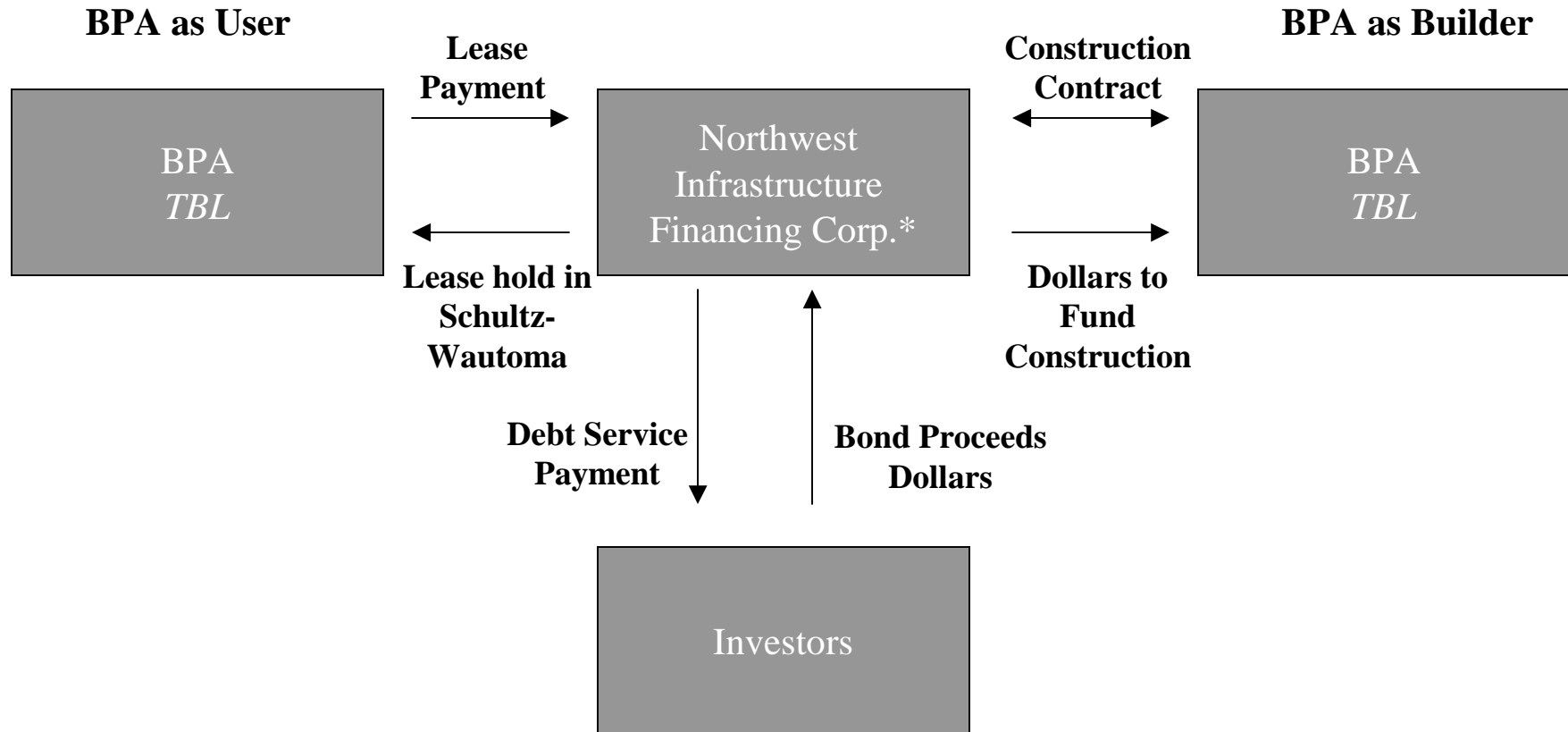
Presented by Jon M. Dull



# BPA's Authority

- The Administrator of BPA “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 . . .” (Transmission System Act, Section 4)
- The Administrator of BPA “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.” (Transmission System Act, Section 7)
- The Administrator of BPA may, in the name of the United States, “acquire by purchase, lease, condemnation, or donation, such real and personal 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.” (Project Act, Section 2(c))
- The Administrator of BPA may “enter into contracts, agreements, and arrangements . . . upon such terms and conditions as he may deem necessary.” (Project Act, Section 2(f))
- The Administrator of BPA may “make expenditures from the [BPA] 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.” (Transmission System Act, Section 11(b)(4))

# Schultz-Wautoma Lease Revenue Bond Transaction



\* Northwest Infrastructure Financing Corporation is a subsidiary of JH Management.

# Schultz-Wautoma Lease Results

FACTS	
Date Priced:	3/9/2004
Taxable Bond Size:	\$119.585 million
Term:	30 years
Treasury Rate:	4.68%
<b>BPA's Treasury Borrowing Rate (Agency Rate):</b>	<b>5.23%</b>
Northwest Infrastructure Bond Rate:	5.37%
Northwest Infrastructure Rate (All-in-cost):	5.47%
<b>Lease Transaction All-in Rate:</b>	<b>5.52%</b>
<b>Total Lease Spread Above BPA's Borrowing Rate:</b>	<b>0.29%</b>

*This information has been made publicly available by BPA on June 8, 2004 and is consistent with BPA's final pricing documents in support of the bond transaction.*