Debt Optimization
and
Debt Management Actions

February 2005

These materials are intended to provide an overview, but not a detailed description, of the items covered.
Debt Optimization is:

• Part of BPA’s debt management program.

• Specifically designed to:
  – Replenish Treasury borrowing authority up to $2.7 billion.
  – Reduce the overall costs of BPA’s debt.
Debt Management Results to Date

• Lowered overall BPA interest rates from 6.6 percent to 5.6 percent, currently saving over $100 million a year.

• Refinanced about $4.6 billion of BPA’s $13.1 billion debt during this low-interest-rate environment.

• Prepaid over $1 billion in federal debt, making greater Treasury borrowing authority available.
BPA’s Treasury Borrowing Authority Limit

- BPA can borrow from the U.S. Treasury up to a set limit.
- In 1999, BPA expected to run out of Treasury borrowing authority in 2005.
- We found that debt optimization is the lowest cost source of capital.
- Congress increased borrowing authority in 2003 by $700 million to $4.45 billion.
BPA’s Treasury Borrowing Authority

$4.45 Billion Permanent Authority

Remaining Borrowing Authority from Treasury EOY FY 04
$1.55 Billion

Outstanding Debt to Treasury EOY FY 04
$2.9 Billion

Bonneville Treasury Borrowing Authority

This information has been made publicly available by BPA on December 8, 2004, and is consistent with the 2004 Annual Report released in December 2004 and contains BPA Agency-approved Financial Information. For illustrative purposes only

BPA Power Business Line

Power Function Review March 1, 2005 Technical Workshop
Background Information Debt Optimization
Debt Optimization makes the best use of Energy Northwest bonds

- BPA backs $6 billion in tax-exempt Energy Northwest bonds. They come due in chunks.
- Energy Northwest replaces old bonds that are currently coming due with new bonds that will become due in the 2013–2018 period.
- This refinancing only occurred because BPA agreed with EN that if the refinancing occurred, BPA would use cash in the Bonneville Fund that would have been used to pay the old EN bonds to pay off higher-cost Treasury debt early. This additional BPA amortization was a necessary condition of the refinancings.
- BPA’s available Treasury borrowing authority increases; overall interest costs go down.
Debt Optimization maintains BPA’s access to Treasury borrowing authority
The Mechanics of Debt Optimization Simplified
(A skeletal view)

**Step 1**
Roll out Energy Northwest Principal Due into Later Years Per Energy Northwest Agreement

**Step 2**
Reduces BPA’s Energy Northwest Debt Service Obligation in the Near-Term Years

**Step 3**
Allows BPA to Pay an Additional Amount of Treasury Principal Equal to that Which Would Have Been Paid by Energy Northwest

**Results**
- Restore BPA Treasury Borrowing Authority
- Lower BPA Interest Expense

Roll out Energy Northwest Principal Due into Later Years Per Energy Northwest Agreement

which

Reduces BPA’s Energy Northwest Debt Service Obligation in the Near-Term Years

then

Allows BPA to Pay an Additional Amount of Treasury Principal Equal to that Which Would Have Been Paid by Energy Northwest

Restore BPA Treasury Borrowing Authority

Lower BPA Interest Expense
Debt Optimization does not increase BPA’s overall debt in future years

- In years where Energy Northwest’s debt increases there is a corresponding decrease in the federal debt.
  (BPA pays off Treasury now and Energy Northwest later instead of Energy Northwest now and Treasury later.)
- Meanwhile, net interest costs are lower.
- All Energy Northwest debt is still due to be retired by 2018.
Bonneville Power Administration
Forecast of Debt and Other Long-Term Liabilities Outstanding

The composition of BPA’s total debt will change, but is expected to stay about level and then decline over time.

This information is subject to change as Bonneville reviews its capital spending estimates. The federal principal section of this graph assumes that Bonneville’s borrowing authority is increased. All prospective borrowing whether third party or federal will not change the overall level of outstanding debt.

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## Mechanics of Debt Optimization Simplified

### (Debt Service Reassignment Design)

<table>
<thead>
<tr>
<th><strong>Past</strong></th>
<th><strong>Present</strong></th>
<th><strong>Future</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PBL</strong></td>
<td>PBL realizes original EN principal as a power expense</td>
<td>No further power customer obligation: “power” cost “paid”</td>
</tr>
<tr>
<td><strong>Corp</strong></td>
<td><strong>EN debt rollout</strong>&lt;br&gt;<strong>Cash from Bonneville Fund used to repay Federal transmission debt</strong></td>
<td><strong>Borrowing Authority restored:</strong> Ability for PBL and TBL to borrow for new capital projects</td>
</tr>
<tr>
<td><strong>TBL</strong></td>
<td>TBL assigned debt service on rolled-out EN debt as obligation</td>
<td>Transmission rates recover EN debt service and Federal transmission debt service</td>
</tr>
</tbody>
</table>

**PBL rates set to recover EN principal due**

**Cash from Bonneville Fund used to repay Federal transmission debt**
Results Achieved by Energy Northwest and BPA To Date

Actual and Forecasted

<table>
<thead>
<tr>
<th>Cash Flow from EN Debt Management Actions</th>
<th>BPA Fiscal Year (Cash Basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-A Advance Refunding (Goldman)</td>
<td>51</td>
</tr>
<tr>
<td>2001-B Current &quot;Rollout&quot; (UBS PeineWebber)</td>
<td>101</td>
</tr>
<tr>
<td>2002-A Advance Refunding (Salomon)</td>
<td>32</td>
</tr>
<tr>
<td>2002-B Current &quot;Rollout&quot; (Salomon)</td>
<td>180</td>
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<tr>
<td>2003-A Current &quot;Rollout&quot; (Citigroup)</td>
<td>239</td>
</tr>
<tr>
<td>2004-A Current &quot;Rollout&quot; (Goldman)</td>
<td>291</td>
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<tr>
<td>Surety Bonds*</td>
<td>36</td>
</tr>
<tr>
<td>Reserve Free-Ups*</td>
<td>11</td>
</tr>
<tr>
<td>Selective Redemption</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
</tr>
<tr>
<td>Total Cash Flow from EN Debt Mgmt Actions</td>
<td>85</td>
</tr>
<tr>
<td>Less Amounts Not Intended for Treasury Prepayments*</td>
<td>10</td>
</tr>
<tr>
<td>Net Cash Flow from EN Debt Mgmt Actions</td>
<td>85</td>
</tr>
<tr>
<td>Cumulative Net Cash Flow</td>
<td>85</td>
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</tbody>
</table>

BPA’s Application to Treasury Principal Payments

<table>
<thead>
<tr>
<th>Net Cash Flow from EN Debt Mgmt Actions</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>Scheduled Amortization</td>
<td>206</td>
<td>113</td>
<td>239</td>
<td>229</td>
<td>247</td>
</tr>
<tr>
<td>Total Amortization</td>
<td>290</td>
<td>210</td>
<td>506</td>
<td>644</td>
<td>592</td>
</tr>
<tr>
<td>Treasury Prepayment</td>
<td>85</td>
<td>97</td>
<td>266</td>
<td>315</td>
<td>346</td>
</tr>
<tr>
<td>Cumulative Treasury Prepayment</td>
<td>85</td>
<td>182</td>
<td>448</td>
<td>763</td>
<td>1199</td>
</tr>
</tbody>
</table>

*Special Tax Counsel advised that reserve free ups due to refinancings or issuance of surety bonds are required to be applied to EN interest due.

Note: In FY 2001 BPA made a Treasury prepayment of $97 million, but the amount should have been $101 million, therefore, the payment in FY 2002 increased from $262 million to $266 million.

Totals may not add due to rounding.

RESULT:
There will be more EN debt in 2013-18 and less Federal, but the total amount of outstanding debt will remain about the same.
Summary of How the Debt Optimization Program Is Working

- Debt Optimization provides financial benefits to BPA’s ratepayers.
- More Debt Optimization provides more benefits.
- Debt Optimization increases BPA’s access to capital and allows infrastructure investment.
- Debt Optimization is working the way Energy Northwest and BPA agreed.