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.

- MNR = Modified Net Revenues
- DSR = Debt Service Reassignment
BPA’s Continuing Capital Program Translates to an Ongoing Need for Low Cost Financing

CAPITAL INVESTMENTS
(in millions of dollars)

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

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*

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

**Results**
- Lower BPA Interest Expense
- Replenish BPA Treasury Borrowing Authority
- For Debt Service Reassignment, Costs are Functionalized to Transmission

For illustrative purposes only.
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

<table>
<thead>
<tr>
<th>Past</th>
<th>Present</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PBL</strong></td>
<td>PBL rates set to recover EN due principal</td>
<td>No further power customer obligation: “power” cost “paid”</td>
</tr>
<tr>
<td></td>
<td>PBL realizes original EN principal as a power expense</td>
<td></td>
</tr>
<tr>
<td><strong>Corp</strong></td>
<td>EN debt rollout</td>
<td>Borrowing Authority replenished: Ability for TBL to borrow for new capital projects</td>
</tr>
<tr>
<td></td>
<td>Cash from Bonneville Fund used to repay Federal transmission debt</td>
<td></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>

For illustrative purposes only.
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 1/

($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Power Marketing</th>
<th>Transmission</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities Outstanding ($millions)</td>
<td>WAI Rate</td>
<td>Liabilities Outstanding ($millions)</td>
<td>WAI Rate</td>
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<tr>
<td>Total Appropriations 2/</td>
<td>$3,091</td>
<td>7.1</td>
<td>$977</td>
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<tr>
<td>Total Bonds Issued to Treasury</td>
<td>779</td>
<td>6.7</td>
<td>1,733</td>
</tr>
<tr>
<td>Total Federal Liabilities</td>
<td>3,870</td>
<td>7.0</td>
<td>2,710</td>
</tr>
<tr>
<td>BPA Liabilities to Non Federal Parties</td>
<td>6,409</td>
<td>6.2</td>
<td>0</td>
</tr>
<tr>
<td>Total FCRPS Liabilities</td>
<td>$10,279</td>
<td>6.5</td>
<td>$2,710</td>
</tr>
</tbody>
</table>

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**

- Energy Northwest $6,012 Wtd. Avg. Int. 5.1%
- Bonds Issued to Treasury $804 Wtd. Avg. Int. 4.8%
- Other Non-Federal Projects $274 Wtd. Avg. Int. 5.3%
- Bureau of Reclamation Appropriations $609 Wtd. Avg. Int. 6.8%
- Corps of Engineers Appropriations $2,458 Wtd. Avg. Int. 6.8%
- BPA Appropriations $868 Wtd. Avg. Int. 7.2%

**Transmission**

- Bonds Issued to Treasury $1,893 Wtd. Avg. Int. 5.5%
- Power Marketing
  - **Liabilities**
    - **Outstanding ($millions)**
    - **WAI Rate**
    - **Total Appropriations**
      - $3,066 7.0
    - **Total Bonds Issued to Treasury**
      - 804 4.8
    - **Total Federal Liabilities**
      - 3,870 6.5
    - **BPA Liabilities to Non Federal Parties**
      - 6,286 5.1
    - **Total FCRPS Liabilities**
      - $10,156 5.6
  - **Liabilities**
    - **Outstanding ($millions)**
    - **WAI Rate**
    - **Transmission**
      - $868 7.2
    - **Total Federal Liabilities**
      - 1,893 5.5
    - **BPA Liabilities to Non Federal Parties**
      - 2,761 6.0
    - **Total FCRPS Liabilities**
      - $2,761 6.0
  - **Total Liabilities**
    - $12,917 5.7

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

BPA as User

BPA
*TBL

Lease Payment

Lease hold in
Schultz-Wautoma

Debt Service
Payment

Northwest
Infrastructure
Financing Corp.*

Construction
Contract

Dollars to
Fund
Construction

Bond Proceeds
Dollars

Investors

BPA as Builder

BPA
*TBL

* Northwest Infrastructure Financing Corporation is a subsidiary of JH Management.
Schultz-Wautoma Lease Results

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

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.