Debt Optimization & Debt Restructuring Update

Presented to the Energy Northwest Executive Board

Presented By
Jon M. Dull, Acting Manager
Debt and Investment Management
Bonneville Power Administration

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Agenda

- Executive Summary
- Background and Program Goals
- Supporting Details
- Debt Restructuring
- Conclusion
Executive Summary

Overview of the program goals and objectives:

- **Restore Treasury Borrowing Authority:**
  - $2 billion of Borrowing Authority and $0.5 billion of Appropriations for a total of $2.5 billion
  - Extended access from FY2004 to FY2016.

- **Assisted in reduced debt service costs:**
  - BPA’s weighted average interest rate on total debt outstanding dropped by 1%.

- **No impact to rates:**
  - Every year since 2007 BPA provided documentation to customers that the Debt Optimization Program did not put pressure on rates.
Debt Optimization Background and Program Goals

Background

- Prior to Debt Optimization, Treasury Borrowing Authority was forecasted to be exhausted by FY 2004.
- Debt Optimization was the least cost alternative to extend Borrowing Authority.

Program Goals

- Designed to replenish up to $3 billion of available Treasury borrowing authority.
- BPA also stated that the program would:
  - Reduce BPA’s overall debt service costs.
- Later, BPA provided documentation to customers annually to show that the program did not cause rate increases.
Supporting Details

**Restore Treasury Borrowing Authority**

- To date, over $2B has been restored. Early amortization payments for FY12 will increase this amount by $53M.**

** The remaining FY 12 additional Treasury payment is associated with the advance refundings completed in FY01-02. No additional EN refinancings for debt optimization will be completed.

($$ in millions)

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Agency Totals

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Supporting Details (continued)

Rates No Higher Agreement/Pledge

- Starting in FY 2005, BPA held regular public meetings to discuss the prior year’s Debt Optimization transaction and to share the projections for the upcoming year.

- In FY 2007, after the Slice Settlement, BPA also shared the results of the “rates no higher” test results during this meeting.

Reduced Overall Debt Service Costs

- Cumulative estimated interest expense savings through FY 2011 are about $200 million.
  - These savings will carry forward into the 2013-18 period, estimated to be about $500 million.

- At the end of FY 2000, before the Debt Optimization program began, the weighted average interest (WAI) rate on BPA’s total debt outstanding was 6.6%.

- At the end of FY 2011, the WAI rate was 5.4%. While Debt Optimization was not the only factor, it did play a significant role in this reduction.
Debt Restructuring Background and Program Goals

- **Background**
  - At the start of IPR, there was a possibility of significant rate increases in FY 2012 and 2013, in part due to nonfederal debt service increases of $80 million per year.
  - The region looked for ways to reduce rates, including examining nonfederal debt service.

- **Program Goals**
  - FY 2011: Restructure ~$249 million.
  - FY 2012: Restructure ~$526 million.
  - Reduce debt service by about $100 million on average in FY 2012-2013 per year.
Debt Restructuring Proposal (Summer 2010)

Debt Restructuring Results

Debt Extension and Restructuring Goals

- Extending $775 million of CGS principal that is maturing and callable in 2011 and 2012.
- Redeem early $274 million Project 1 & 3 principal and restructure principal maturities.
Series 2011-AB Bond Sale: $433m

- 2011 Debt Restructuring: $322
- Refinancing for Savings: $86m
- CGS Capital Improvements and Transactions Costs (Taxable): $26m

- Included in Final Proposal
- Forecasted All-In Total Interest Cost: 3.75%
- Actual All-In Total Interest Cost: 3.78%

- Refinance for savings 2011 callable bonds not targeted for debt restructuring
  - $12.2 million present value savings
Interest Rate Threshold

- Energy Northwest and BPA proactively took advantage of a low interest rate environment

Historical 10 Year MMD
1996-2011

Interest Rate Threshold - 3.93% - 25th Percentile
6/9/11 Pricing - 3.72% All-In - Only that low 17% of the time
Series 2011-C 2012-A Bond Sale: $669m

Extend $200m of 2012 callable CGS principal – Closes April, 2012
  ➢ Redeem $180m of callable Project 1 & 3 debt
  ➢ Restructure/Refinance for Savings $267m callable EN principal
  ➢ Transaction Costs (Taxable): $4m

➢ Forecast included in Final Proposal
➢ Forecasted All-In Total Interest Cost: 3.95%
➢ Actual All-In Total Interest Cost: 3.41% - Average life 7.6 years
  ➢ 3.72% represents a 10 year MMD

➢ Refinance for savings 2012 callable bonds not targeted for debt restructuring
  ➢ $21.9 million present value savings
Conclusion

- The Debt Optimization Program was beneficial to BPA and EN on many levels:
  - Accomplished the primary goal of restoring Treasury borrowing authority.
  - Obtained interest savings for BPA.
  - Did not increase BPA’s total debt outstanding.
  - Strengthened BPA’s partnership with EN.
  - Built trust with customers through transparency and informative meetings regarding debt management actions.

- BPA and Energy Northwest continued their partnership through the 2011 and 2012 refinancing.
  - Provided about $100 million in rate relief.
  - Obtained interest rates the same or lower than forecasted.
  - Refinancing for savings obtained a total of $34.1 million of present value savings unrelated to the debt extension program.